Technical bulletin 2014/1

January to March

Prepared by the Technical Services Unit
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Contents

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements (and equivalent statements) and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

It is important that auditors read this technical bulletin promptly so they are familiar with the information and guidance provided. The auditor action checklist section at the end of each chapter should be completed by a senior member of the audit team.

While auditors act independently, and are responsible for their own conclusions and opinions, the TSU has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow TSU guidance. Auditors should advise the TSU promptly if they intend not to follow any guidance on an important issue**.

TBs are available to external auditors from Audit Scotland's *Technical reference library,* and published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

Headlines

The table in this chapter provides brief headlines for the content of this TB, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Audit year	Paragraphs
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The International Public Sector Accounting Standards Board has issued a proposed practice guideline on reporting performance information.	Not yet known	18
The International Auditing and Assurance Standards Board has issued a • new audit quality framework • revised standard on assurance engagements	• 2013/14 • 2013/14	• 22 • 32
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Local authority chapter	Audit year	Paragraphs
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Local authority chapter	Audit year	Paragraphs
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The Scottish Government has issued • guidance on the housing revenue account • a finance circular on *The Local Government Finance (Scotland) Order 2014*.	• 2013/14 • 2014/15	• 94 • 97
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The Controller of Audit has issued follow up statutory reports on Highland Council.	2013/14	108

Central government chapter	Audit year	Paragraph
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HM Treasury has issued • an amendment to the 2013/14 *Government financial reporting manual* • a review of international financial reporting standards issued and effective for 2013/14 • guidance on 2013/14 annual reports • the 2014/15 *Government financial reporting manual.*	• 2013/14 • 2013/14 • 2013/14 • 2014/15	• 116 • 123 • 126 • 128
The Scottish Government has issued a • revised code of conduct for members • amendments to the *Scottish public finance manual.*	• 2013/14 • 2013/14	• 134 • 137

Health chapter	Audit year	Paragraph
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Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments should be sent to pobrien@audit-scotland.gov.uk

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Amendments to IFRS

1. The International Accounting Standards Board (IASB) has issued the following two documents containing a collection of amendments to various international financial reporting standards (IFRS)
    - *Annual improvements to IFRSs 2010-2012*.
    - *Annual improvements to IFRSs 2011-2013*.
2. The main changes are to the following standards (with effective dates of periods beginning 1 January 2014 for the first three and 2015 for the others)
    - *IFRS 8 Operating segments*
    - *IAS 16 Property, plant and equipment*
    - *IAS 24 Related party disclosures*
    - *IFRS 3 Business combinations*
    - *IFRS 13 Fair value measurement*
    - *IAS 40 Investment property.*

IFRS 8 Operating segments

3. IFRS 8 has been amended to require bodies to disclose the judgements made by management when aggregating operating segments. In particular, the following should be disclosed

   - A brief description of the operating segments that have been aggregated.
   - The indicators that have been assessed in determining that the segments share similar economic characteristics.

IAS 16 Property, plant and equipment

4. IAS 16 currently states that when an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation should be restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

5. However, in practice, the restatement of the accumulated depreciation is not always proportionate to the change in the gross carrying amount, particularly when the residual value, the useful life or the depreciation method has been amended before the revaluation.

6. Consequently, IAS 16 has been amended to state that the accumulated depreciation should be calculated as the difference between the gross and the net carrying amount after restating the gross carrying amount in a manner consistent with the revaluation of net carrying amount.

IAS 24 Related party disclosures

7. The definition of related parties in IAS 24 has been extended to include an entity that provides key management personnel services. Transactions for the provision of key management personnel services would require to be separately disclosed.

IFRS 3 Business combinations

8. IFRS 3 has been amended to clarify that the

   - formation of joint operations as defined in *IFRS 11 Joint arrangements* should be excluded from its scope, and not just joint ventures as it currently states
   - the scope exception only applies to the financial statements of the joint arrangement itself, i.e. it does not apply to the accounting by the parties to the joint arrangement for their interests in that arrangement.

IFRS 13 Fair value measurement

9. IFRS 13 has been amended to clarify that the portfolio exception (i.e. the option to measure the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of *IAS 39 Financial instruments: recognition and measurement* or *IFRS 9 Financial instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in *IAS 32 Financial instruments: presentation.*

IAS 40 Investment property

10. IAS 40 has been amended to clarify that

- judgement is required to determine whether the acquisition of investment property is the acquisition of an asset or a business combination in the scope of IFRS 3
- this judgement is not based on IAS 40 but is instead based on the guidance in IFRS 3.

Proposed amendments to IFRS

11. The IASB has also issued ED/2013/11 Annual improvements to IFRSs 2012-2014 cycle which contains a collection of proposed amendments to various IFRSs.

12. There are very minor changes proposed to the following standards

- *IFRS 5 Non-current assets held for sale and discontinued operations*
- *IFRS 7 Financial instruments: disclosure*
- *IAS 19 Employee benefits*
- *IAS 34 Interim financial reporting.*

13. Comments were required by 13 March 2014. The proposed effective date for the amendments is for periods beginning on or after 1 January 2016, with earlier application permitted.

Bulletin on reducing complexity

14. The Financial Reporting Council (FRC) and other European national standard-setters have issued Getting a better framework - complexity - bulletin which discusses complexity in financial reporting. The bulletin defines complexity as referring primarily to the difficulty of

- users to understand the economic substance of a transaction or event and the overall financial position and results of a body
- preparers to properly apply generally accepted accounting
- others to audit, analyse, and regulate a body's financial reporting.

15. Determining the best way to present complex transactions involves making difficult judgments, including weighing up the costs of preparing the information and the benefits of that information to different types of user. In making these judgments, the benefit of detailed complex information to some users of the financial statements needs to be balanced against its understandability by other users. The bulletin distinguishes between

- unavoidable complexity, which arises because business transactions are increasingly sophisticated and difficult to understand
- avoidable complexity, which potentially arises from poor standard-setting, regulation, education and information delivery.

16. Currently, the *Conceptual framework* notes that some phenomena are inherently complex and that, while excluding information about such phenomena might make the financial reports easier to understand, they would be incomplete and therefore potentially misleading. The bulletin suggests that it would be helpful for the framework to include additional discussions on

complexity that recommend that the presentation and disclosure of information should be as simple as possible to achieve a faithful representation of relevant information.

17. Comments should be sent to commentletters@efrag.org by 30 April 2014.

Proposed practice guideline on reporting performance information

18. The International Public Sector Accounting Standards Board (IPSASB) has issued ED 54 Proposed recommended practice guideline Reporting service performance information to set out good practice for reporting service performance information.

19. The proposed guidelines apply to information for users on a body's service performance objectives and its achievement of those objectives. It recommends that bodies should establish clear objectives before the start of the reporting period, and provide useful information at the end of the period on the extent to which those objectives were achieved.

20. The service performance information should be aimed at accountability and decision making, and enable users to assess the body's
    - service delivery activities and achievements during the reporting period
    - financial results in the context of its achievement of service delivery objectives
    - efficiency and effectiveness.

21. Comments are required by 31 May 2014 via the IPSASB website.

Auditing developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

New audit quality framework

22. The International Auditing and Assurance Standards Board (IAASB) has issued A framework for audit quality which sets out a framework that describes the elements that contribute to audit quality.

23. The framework states that a quality audit is likely to be achieved when the auditor’s opinion on the financial statements is based on audit evidence obtained by an engagement team that
    - exhibited appropriate values, ethics and attitudes
    - was sufficiently knowledgeable and experienced and had sufficient time allocated to perform the audit work
    - applied a rigorous audit process and quality control procedures
    - provided useful and timely reports
    - interacted appropriately with a variety of different stakeholders.

24. The framework describes five elements of a quality audit (i.e. inputs, process, outputs, key interactions within the financial reporting supply chain, and contextual factors) and sets out a

number of quality attributes for each element. For example, quality attributes for the 'inputs' element include the following

- The engagement team exhibits objectivity and integrity, professional competence, due care, and professional scepticism.
- The firm emphasises the importance of providing partners and staff access to high-quality technical support, and promotes a culture of consultation on difficult issues.
- Partners and staff have the necessary competences, understand the entity's business, and make reasonable judgments.
- Staff who perform audit work have sufficient experience, their work is appropriately directed, supervised and reviewed, and there is a reasonable degree of staff continuity.
- The audit engagement partner and other experienced members of the audit team are accessible to management and those charged with governance.

Audit quality reviews on materiality and fraud

25. The FRC has developed a new product called audit quality thematic reviews which are intended to supplement the annual programme of audit inspections of individual firms. The reviews consider firms' policies and procedures, and their application in practice, in respect of a specific aspect of auditing. The first two reviews are on

- materiality (see paragraph 26)
- fraud risks and law and regulations (see paragraph 29).

Materiality

26. The report on Materiality identifies a requirement for greater focus by auditors on the needs and expectations of users of the financial statements in determining overall materiality levels. It states that qualitative factors relating to users should be the overriding consideration.

27. Other key messages indicate that auditors should

- ensure that adjustments to materiality benchmarks for 'one-off' items are appropriate, and that guidance assists audit teams in making these judgments
- demonstrate the consideration of risk in setting performance materiality and avoid, as a default, simply setting this at the highest level allowed
- improve the quality and accuracy of their reporting of materiality levels to audit committees and ensure that all uncorrected misstatements above the reporting threshold agreed are collated and reported
- ensure that materiality is appropriately addressed when planning analytical procedures.

28. The report also identifies a requirement for audit committees to better understand the judgements made by auditors related to materiality levels. It also makes a number of recommendations to audit committees and encourages them to discuss with their auditors the basis for the materiality levels set, including how these reflect the needs and expectations of users of the body's financial statements.

Fraud risks and law and regulations

29. The report on Fraud risk and law and regulations sets out the findings from a review into the auditor's consideration of fraud risks and non-compliance with laws and regulations. The review identified where auditors should improve the quality and effectiveness of the audit procedures performed in relation to these areas.

30. The consideration of fraud risks and relevant laws and regulations, and the performance of related audit procedures, tends to be viewed as a compliance exercise rather than as an important and integral part of the audit. There is a lack of focus on identifying the specific risks in relation to these areas, and there was also evidence of a presumption by audit teams that issues were unlikely to occur at the body they were auditing, which suggests a lack of appropriate professional scepticism.

31. In order to make the specific improvements required, auditors should

- ensure that fraud risk discussions are focused on identifying fraud risk factors as well as the risks of material misstatement in the financial statements due to fraud
- have discussions with management, including internal audit and those outside the finance function, that focus more on fraud risks rather than any frauds already identified
- ensure that the assessment of fraud risks, and the audit procedures which are intended to address them, are more tailored to the audited body
- improve their identification and assessment of the laws and regulations affecting the audited body, with a clearer identification of those that may have a direct or indirect impact on the financial statements
- evaluate the design and implementation of the body's internal controls to detect and prevent fraud and to monitor compliance with laws and regulations
- exercise greater professional scepticism in identifying and addressing the fraud risks that are specific to the audited body and in relation to possible breaches of laws and regulations
- ensure that analytical review procedures are not limited to comparing line items in the current year to the prior year figures, as the use of other ratio analysis and inclusion of the cash flow statement in the analysis may improve the quality of the work
- draw an overall conclusion relating to the risks of material misstatement due to fraud after considering all relevant audit evidence obtained during the audit.

Revised standard on assurance engagements

32. The IAASB has issued ISAE 3000 (Revised) Assurance engagements other than audits or reviews of historical financial information which provides standards for conducting assurance engagements.

33. In an assurance engagement, a practitioner (i.e. the individual conducting the engagement) obtains evidence to express a conclusion on the outcome of the measurement or evaluation of an underlying subject matter against set criteria. The objectives of the practitioner are to

- obtain assurance about whether the subject matter information is free from material misstatement
- express a conclusion in a written report and describe the basis for that conclusion.

34. Assurance engagements provide either

- reasonable assurance where the conclusion is expressed in a form that conveys an opinion on the outcome of the measurement or evaluation
- limited assurance where the conclusion is expressed in a form that conveys whether, based on the evidence obtained, a matter has come to the practitioner's attention to cause them to believe the subject matter information is materially misstated.

35. The standard is effective for engagements where the assurance report is dated on or after 15 December 2015.

Publications

The following publication published since TB 2013/4 can be obtained by using the hyperlink.

Audit Scotland

Reshaping care for older people

36. This report from Audit Scotland Reshaping care for older people reviews progress three years into the Scottish Government's ten year project to improve health and social services for people over 65. Key messages include the following

- There is little evidence of progress in moving money to community-based services, and NHS boards and councils need clear plans for how this will happen in practice.
- Partners need to make better use of data, focus on reducing unnecessary variation and monitor and spread successful projects.
- Initiatives are not always evidence-based or monitored on an ongoing basis and it is not clear how successful projects will be sustained and expanded.
- National performance measures have not kept pace with policy changes, and a greater focus on outcomes is needed. There is no clear national monitoring to show whether the policy is being implemented successfully and what impact this is having on older people.

Fraud cases

External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2013/4.

Payroll

Secondary employment

37. An employee defrauded a council of £8,000 in sick pay by providing medical certificates while working for a second employer. The fraud was discovered when Human Resources became suspicious of the patterns and frequency of the sickness absences and referred the case to the council's fraud team.

38. The employee has resigned and the case has been referred to the Procurator Fiscal. The council is pursuing recovery of the money.

Benefits and tenancy

Tenancy and benefit fraud

39. A council house tenant defrauded £165,000 by claiming housing and council tax benefits from one council while resident in another council area.

40. The fraud was discovered following investigation of a *National fraud initiative* match which identified that the defaulter held a personal licence for alcohol in the second council area. An investigation revealed the defaulter was resident in that area and the property they had the tenancy for in the first council area was being occupied by relatives.

41. The tenancy has been terminated and the case referred to the Procurator Fiscal. The council is attempting to recover the overpaid benefits.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance notes have been published by the TSU since TB 2013/4. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on auditing 2013/14 local authority financial statements

42. The TSU has published Note for guidance 2014/1(LA) Audit of 2013/14 local authority financial statements to provide auditors with guidance on planning and performing the audit of the 2013/14 local authority financial statements.

43. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 local authority financial statements and on auditors' responsibilities to
    - audit and express an opinion on elements of the remuneration report
    - express an opinion on the consistency of the explanatory foreword with the financial statements
    - report on other matters such as the annual governance statement.

44. Auditors should use this note for guidance when planning and performing the audit of the 2013/14 local authority financial statements.

Note for guidance on auditing 2013/14 local authority pension fund financial statements

45. The TSU has published Note for guidance 2014/2(LA) Audit of 2013/14 local authority financial statements (pension funds) to provide auditors with guidance on planning and performing the audit of the 2013/14 local authority pension fund financial statements.

46. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements and on auditors' responsibilities to

- express an opinion on the consistency of the explanatory foreword with the financial statements
- report on other matters such as the governance compliance statement.

47. Auditors should use this note for guidance when planning and performing the audit of the 2013/14 local authority pension fund financial statements.

Note for guidance on auditing 2013/14 local authority charity financial statements

48. The TSU has published Note for guidance 2014/3(LA) Audit of 2013/14 local authority financial statements (s106 charitable funds) to provide auditors with guidance on planning and performing the audit of the 2013/14 the financial statements of registered charities where a local authority or some members are the sole trustees.

49. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements and on auditors' responsibilities to express an opinion on the consistency of the trustees' annual report with the financial statements and report on other prescribed matters.

50. Auditors should use this note for guidance when planning and performing the audit of the 2013/14 local authority charity financial statements.

Guidance on emerging issues

The following article provides guidance from the TSU on an emerging issue

Audit of charities from 2013/14

51. A risk has been identified since the publication of the note for guidance on local authority charities referred to at paragraph 48. The TSU has been made aware that authorities may not be able to locate the governing documents (e.g. trust deed) for some of their charities, particularly the older ones. The implications of this include the following

- The governing documents may require the accounts to be prepared on an accrued basis. If there is any reason to believe that may be the case (e.g. where the trust deeds for other similar charities contain such a requirement), the trustees may consider it prudent to prepare the accounts on an accrued basis.

- The unavailability of governing documents is likely to be reported to trustees under *ISA 260 Communication with those charged governance* as a significant difficulty encountered during the audit.
- The absence of governing documents is a matter that auditors may wish to report to the Office of the Scottish Charity Regulator if it is considered a significant risk to the proper application of charitable funds or, for example, there is uncertainty over the identity of the charity trustees.
- The governing documents may specify restrictions on how income or capital can be applied. If auditors are unable to obtain sufficient appropriate evidence on the existence of restricted funds by performing alternative procedures, they may judge that this constitutes a limitation on the scope of the audit and consider the impact on their opinion.

Accounting developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

2013/14 code guidance notes

52. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued the *Code of practice on local authority accounting in the UK - guidance notes for practitioners - 2013/14 accounts* which are intended to assist in understanding the accounting requirements of the *2013/14 Code of practice on local authority accounting in the UK* (the Code).

53. The guidance notes provide background to the 2013/14 Code's requirements and include detailed illustrations, but they are not prescriptive. They have been updated to reflect the changes to the 2013/14 Code (see TB 2013/2 - paragraph 71) including
    - examples of new post-employment benefits disclosures
    - changes to guidance on service concession arrangements
    - accounting for business rates retention.

New good practice guide on financial statements

54. CIPFA has issued *Financial statements - a good practice guide for local authorities* which is intended to help local authorities reduce the clutter in their financial statements.

55. Financial statements have dramatically increased in size and complexity over recent years, and this has led to calls for standard-setters to 'cut the clutter' in annual reports and financial statements. However, the publication states that cutting the clutter is not something that can only be achieved at standards level, and local authorities should review their financial statements and remove any unnecessary disclosures that make them difficult to use by
    - considering what information is material to the users of the accounts
    - improving the presentation of the accounts so that users can more easily identify key information.

56. This review entails the exercise of professional judgement in deciding the information that can be omitted or presented in a new manner. The publication is intended to support authorities in making these judgements by providing examples of good practice. It comprises the following two parts

- Part 1 considers general principles, such as identifying the users of the accounts, and how to apply the concept of materiality.
- Part 2 discusses good practice in the production of each of the primary statements, the notes to the accounts, and the explanatory foreword, and considers how alternative presentation formats may help make information, particularly in the notes, more accessible.

Revised transport infrastructure assets code

57. CIPFA has issued a revised *Code of practice on transport infrastructure assets* to provide guidance on the development and use of financial information to support asset management, financial management, and reporting of local transport infrastructure assets. It requires infrastructure assets to be measured at depreciated replacement cost, and is being used to provide information for the whole of government accounts.

58. The transport assets code uses a whole-life cost-based approach to highways maintenance underpinned by lifecycle planning. It

- helps authorities to model and understand the consequences of different maintenance strategies and standards of service
- supports performance assessment, benchmarking and better procurement
- provides detailed information on the cost of individual maintenance activities
- provides a simplified approach to the calculation of gross asset value.

59. This second edition of the transport assets code has been reviewed in the light of experience of practitioners since the original publication in 2010, and to reinforce the links with the accounting Code and provide more clarity on financial reporting practicalities.

2014/15 SeRCOP

60. CIPFA has issued the *Service reporting code of practice for local authorities* (SeRCOP) which sets out proper accounting practice for financial reporting below the level of the financial statements in 2014/15.

61. SeRCOP provides guidance on financial reporting to stakeholders (e.g. performance indicators) in order to achieve data consistency and comparability. SeRCOP does not provide guidance on the financial statements but is consistent with the accounting Code.

62. The structure of SeRCOP is as follows

- Section 1 gives an overview of SeRCOP’s framework and status.
- Section 2 defines total cost, and includes best practice guidance to provide a commentary on the mandatory requirements.

- Section 3 sets out the required service expenditure analysis (SEA), which is required by the Code to be used in the comprehensive income and expenditure statement.
- Section 4 provides a recommended standard subjective analysis.

63. This edition of SeRCOP contains only minor changes from 2013/14, e.g. additional guidance is provided in respect of allocating support services and other overheads to ensure their consistency with the requirements of the conceptual framework set out in the Code. There are no structural changes to the SEA.

Corporate governance developments

The document referred to in the following article is available to external auditors from Audit Scotland's *Technical reference library*.

Revised guidance on audit committees

64. CIPFA has issued a revised edition of *Audit committees - Practical guidance for local authorities and police* which sets out revised guidance on the function and operation of audit committees in local authorities.

65. The guidance incorporates a revised position statement on audit committees. It emphasises the importance of them being in place in all principal local authorities and also recognises that they are a key component of governance. It states that the purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

66. There have been a number of significant developments in governance and audit practice since the previous 2005 edition of the guidance which have required audit committees to adapt their remit, notably the introduction of annual governance statements. The aim of this publication is to reflect these changes and to support audit committees in performing effectively.

67. The core functions of an audit committee include

- being satisfied that the authority’s annual governance statement properly reflects the risk environment and any actions required to improve it, and demonstrates how governance supports the achievements of the authority’s objectives
- considering the effectiveness of the authority’s risk management arrangements and the control environment
- considering the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
- reviewing the financial statements, external auditor’s opinion and reports to members, and monitoring management action in response to the issues raised by external auditors.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Pension fund

Draft statement on role of CFO

68. CIPFA has issued Role of the chief finance officer in local government: supplement - role of the CFO in LGPS - consultation draft which is a draft statement on the role of the chief financial officer (CFO) in the local government pension scheme (LGPS).

69. The draft statement is a supplement to the *Statement on the role of the CFO in local government* which describes the role and responsibilities of local authority CFOs. The supplement aims to place the advice in the statement in the context of the financial administration of the LGPS.

70. Comments should be made by 9 May 2014 to nigel.keogh@cipfa.org.

Benefits

2013/14 subsidy claim

71. The Department for Work and Pensions (DWP) has issued *Notes on completion of form MPF720B - final subsidy claim 2013/14* and a letter relating to the completion of the benefits subsidy claim for 2013/14.

72. The deadline for receipt of the pre-certified claim to the DWP and external auditors is 30 April 2014. The deadline for receipt of the certified claim by the DWP is 30 November 2014.

73. Requests for extensions to these deadlines require to be made in writing, with reasons, by authorities. Extension requests from auditors will not be considered. Subsidy may be withheld if deadlines are missed.

74. The letter also shows the amounts paid for 2013/14 in respect of administration subsidy and interim benefit subsidy received.

2013/14 HB COUNT modules

75. The Audit Commission has issued modules 2 and 3 of the 2013/14 HB COUNT approach to the certification of housing benefit (HB) subsidy claims. HB COUNT is set out in modules that are updated and agreed with the DWP each year. The HB COUNT approach for 2013/14 consists of six modules, and the following have been issued

    - Module 2 contains a checklist to help auditors ensure that the authority's system is using the correct benefit parameters to calculate benefit entitlement and for the authority to claim the correct amount of subsidy.

- Module 3 comprises workbooks to be completed for detailed testing, incorporating step-by-step guidance and a test result summary.

76. Module 1 has also been issued and provides an overview of the approach, but this is superseded in Scotland by guidance from the TSU. Module 4 is an analytical review tool and module 5 is a software diagnostic tool but these have not yet been issued. Module 6 relates only to England.

77. For 2013/14, the key changes to HB COUNT are to reflect changes to the regulations and subsidy order. The most significant of these are
    - the abolition of council tax benefit (CTB) from 1 April 2013 following the introduction of the *Scottish council tax reduction scheme*. No subsidy is payable on residual payments of CTB under the scheme that operated to 31 March 2013; authorities should enter zero in the CTB cells of the 2013/14 subsidy claim
    - the introduction of the benefit cap for working age claimants
    - local housing allowance revisions and the removal of transitional protection
    - the introduction of the HB size criteria rules
    - the universal credit pilot and associated migration of some existing HB claims.

2014/15 benefit uprating

78. The DWP has issued HB circular A24/2013 (Revised) Housing benefit: 2014/15 uprating to advise of benefits rates applicable from April 2014.

79. The circular also contains specific advice for local authorities that apply percentage increases to uprate income from other social security benefits. As some of the rates have been uprated by different indices, authorities should consider whether applying standard percentages will result in correct determinations.

Benefit cap

80. The DWP has issued HB circular A23/2013 Benefit cap: dual cases in different local authorities to advise of the process to be followed to cap claimants who have two current HB claims in different local authorities.

81. The DWP will contact the local authority responsible for the latest HB claim advising that the claimant is a potential dual claim and that a cap could apply. The contacted authority is required to
    - contact the other authority to confirm the rate of HB in payment, and confirm if the accommodation is considered supported exempt accommodation
    - confirm to the DWP that the claimant is entitled to receive two HB payments, and advise the current rate of both HB payments and whether either claim relates to supported exempt accommodation.

82. If a cap is appropriate, the DWP will notify the authority responsible for the latest HB claim, who should agree with the other authority the reduction on each of the HB claims. The amount of reduction to be applied should be apportioned depending on the amount of HB in payment.

Removal of the spare room subsidy

83. The DWP has issued HB circular A1/2014 to provide details of The Housing Benefit (Transitional Provisions) (Amendment) Regulations 2014. The amendment regulations remove from *The Housing Benefit and Council Tax benefit (Consequential Provisions) Regulations 2006* the transitional protection for tenants whose HB is paid in the form of rent rebates or whose landlord is a registered housing association.

84. HB urgent bulletin U1/2014 Removal of the spare room subsidy explained that the transitional protection was for those claimants that have been continuously entitled to HB since at least 1 January 1996 and occupied the same dwelling since that date, provided there was no break in entitlement of more than 4 weeks (or fifty two weeks if the claimant or their partner is a 'welfare to work' beneficiary).

85. The bulletin also advised authorities to remove the under-occupancy reduction for these claimants from 1 April 2013 and record details of affected cases so they can be reassessed to reapply the under-occupancy reduction when the regulations come into force (on 3 March 2014).

86. However, some transitional protection remains for those claimants who on or before 31 March 2013

- were over state pension age; or
- had their eligible rent reduced in accordance with transitional provisions; or
- had a determination that their dwelling was larger than reasonably required or that the rent was unreasonably high but the eligible rent was not reduced because regulations prevented the local authority from doing so.

2014/15 Discretionary housing payments

87. The DWP has issued HB circular 1/2014 Details of the government contribution towards DHP for LAs in 2014/15 to provide details of each local authority's contribution and expenditure limit for discretionary housing payments for 2014/15.

88. Although the funding is allocated across four strands, it is for each local authority to apply discretion as to which claimants receive payments.

2014/15 personal independence payment

89. The DWP has issued HB circular A2/2014 to provide details of The Housing Benefit (Miscellaneous Amendment) Regulations 2014 which amend various HB regulations to make the following changes in respect of HB claimants who receive personal independence payment (PIP)

- For HB claimants transferring from disability living allowance (DLA) to PIP at the same time as the annual uprating of benefits, the transfer will take effect, for HB purposes, from 1 April if the rent is paid monthly or the first Monday in April if paid weekly.
- For HB claimants transferring from DLA to PIP at the same time as they notify a local authority of a change to their rent or any other change of circumstance, the change will take effect from the first day after entitlement to DLA ends.
- HB claimants are treated as continuing to receive PIP while they are in hospital where their PIP payment ceased because they had gone into hospital. However, this provision does not apply to people who claim PIP when in hospital.

New minimum earnings threshold

90. The DWP has issued HB circular A3/2014 Minimum earnings threshold to provide guidance on determining whether the work of nationals of European Economic Area (EEA) countries is genuine and effective.

91. EEA nationals who are workers or self-employed do not have to be habitually resident in the UK to receive HB. In order to be a worker or self-employed, the person must be doing work which is genuine and effective. The following two tier process has been introduced to determine whether an EEA national's work can be treated as genuine and effective

- Tier 1 - If the claimant can prove that they have been earning at least the minimum earning threshold (set at the level at which national insurance is paid) for at least three months prior to making the HB claim, the work can be treated as genuine and effective.
- Tier 2 - Where the claimant does not satisfy the minimum earnings threshold criteria, a further assessment will be undertaken against a set of secondary criteria (e.g. hours worked, pattern of work, and nature of employment contract).

Guidance on property adaptations for disabled claimants

92. The DWP has issued HB circular A4/2014 to provide guidance on property adaptations needed for claimants with disabilities. Regulations allow claimants to receive HB for a dwelling up to 4 weeks before they occupy it where a delay is caused by the need to make reasonable adaptations to meet their disablement needs. The Court of Appeal has ruled that adaptations could include, not only alterations to the fabric or structure of the dwelling, but also redecorating or carpeting.

93. Local authorities are required to consider on a case by case basis whether there is a clear connection between the work being carried and the disablement needs of the claimant (or any relevant family member who lives with them), and the completion of the work is reasonably required before the claimant can move in.

Housing

New HRA guidance

94. The Scottish Government has issued Guidance on the operation of local authority HRAs in Scotland to provide consolidated information on the housing revenue account (HRA). The guidance supplements the statutory requirement for authorities to account for the costs associated with the HRA as set out in the *Housing (Scotland) Act 1987*. It explains the basis for each local authority landlord so they can operate to the same set of guidelines regarding what should be credited and debited to the HRA so that a consistent approach is taken across Scotland.

95. The guidance sets out the following features of how the HRA should operate

- It should be compliant with legislation, any statutory guidance in relation to local authority finance, and the accounting Code and SeRCOP.
- HRA assets must be used to benefit current or prospective council tenants, either directly or as investment properties providing a financial return, or removal from the HRA should be considered.
- There should be a robust, written methodology for calculating and allocating HRA costs, including internal costs charged to the HRA, in sufficient financial detail for tenants to understand why costs are being charged and who is benefiting from the services they relate to.
- Local authorities must have clear, published mechanisms and procedures for consulting with council tenants and/or registered tenant representatives on any matters of financial transparency relating to the HRA.
- Non-council tenants living in mixed tenure areas benefiting from HRA-provided services should be charged for goods and services.

Finance

2014/15 funding

96. The Scottish Government has issued Finance circular 1/2014 Local Government Finance (Scotland) Order 2014 etc to provide a summary of the figures in The Local Government Finance (Scotland) Order 2014.

97. The order determines the amount of the general revenue grant payable and non-domestic rate income distributed to each local authority for 2014/15, and redetermines the amount payable to each authority in respect of 2013/14.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Local government

98. The Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2013 (SSI 351) came into force on 18 February 2014 and amended the principal 2004 members' remuneration regulations by substituting increased amounts for different categories of local authority remuneration to their members.

99. The Local Government Finance (Scotland) Order 2014 (SSI 36) came into force on 12 February 2014 (see paragraph 96).

100. The Non-Domestic Rate (Scotland) Order 2014 (SSI 28) comes into force on 1 April 2014 and prescribes a rate of 47.1 pence in the pound as the non-domestic rate to be levied for 2014/15.

101. The Non-Domestic Rates (Levying) (Scotland) Regulations 2014 (SSI 30) come into force on 1 April 2014 to provide

- for the general reduction in rates for properties with a rateable value of £18,000 or less on a sliding scale of between 25% and 100%, except for property used for payday lending
- a formula for the additional amount payable as rates for properties with a rateable value exceeding £35,000.

102. The Non-Domestic Rating (Unoccupied Property)(Scotland) Amendment Regulations 2014 (SSI 31) come into force on 1 April 2014 and amend the principal 1994 non-domestic rating regulations in respect of unoccupied property. The regulations

- provide a non-domestic rate relief for property that was last used as a hotel, public house or restaurant and has been unoccupied for at least a year before again becoming occupied. Such property will be deemed to be unoccupied for a period of up to one year, and therefore the rate payable will usually be 50% of the rate that would otherwise apply
- apply this rate relief to premises that have not previously been occupied, where the first use is as a hotel, public house or restaurant
- raise the rateable value threshold at which eligibility for the relief ceases to £65,000
- provide that no rate relief is to be granted where payday lending is carried out on the property.

103. The Council Tax Reduction (Scotland) Amendment Regulations 2014 (SSI 35) come into force on 1 April 2014 and amend the principal 2012 council tax reduction regulations to uprate figures that are used to calculate the amount of council tax reduction claimants are entitled to receive.

Pensions

104. The Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2014 (SSI 23) came into force on 3 March 2014 and made various amendments to the principal 2008 local government pension scheme regulations.

105. The amendment regulations provide for the following

- Regulations 3 and 5 have effect from 1 February 2013 and make provision for the circumstances in which a person who is on a contract of less than 3 months, or who is not an active member, are to be enrolled in the scheme.
- Regulation 4 allows a person who has paid additional voluntary contributions to transfer the accumulated value to an alternative pension scheme.
- Regulation 6 provides that where an administering authority has not paid the full amount of a member's death grant within 2 years of the member's death, the authority must pay any shortfall to the member's executors.

Housing benefit

106. The Housing Benefit (Transitional Provisions) (Amendment) Regulations 2014 (SI 212) come into force on 3 March 2014 (see paragraph 83).

107. The Housing Benefit (Miscellaneous Amendment) Regulations 2014 (SI 213) come into force on 31 March 2014 or 1 April 2014 with the remaining regulations coming into force on 7 April 2014 (see paragraph 89).

Section 102 reports

Under section 102(1) of the Local Government (Scotland) Act 1973, the Controller of Audit may report to the Accounts Commission on the accounts of local authorities or any matters arising from the accounts. The following reports have been prepared since TB 2013/4 and can be obtained by using the hyperlinks.

The Highland Council: Caithness heat and power: Follow-up statutory report

108. This follow-up report is in response to the Accounts Commission's request for a final report on losses incurred by The Highland Council in respect of the *Caithness Heat and Power* project (see TB 2011/1 - page 44).

109. In its response to the report, the Commission states that this case provides useful learning points for all councils, particularly the need for robust governance and accountability arrangements for an arms-length external organisation in which roles and responsibilities are clear. It also highlights the need to ensure

- sound risk management
- a full assessment of the skills required
- a rigorous option appraisal for initiatives that provide council services.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the note for guidance referred to at paragraph 44 when planning the audit of the 2013/14 local authority financial statements?			
2 Have you used the note for guidance referred to at paragraph 47 when planning the audit of the 2013/14 local authority pension fund financial statements?			
3 Have you used the note for guidance referred to at paragraph 50 when planning the audit of the 2013/14 local authority charities financial statements?			

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance notes have been published by the TSU since TB 2013/4. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library.*

Notes for guidance on auditing 2013/14 central government financial statements

110. The TSU has published Note for guidance 2014/4(CG) Audit of 2013/14 central government financial statements and Note for guidance 2014/5(CG) Audit of 2013/14 central government financial statements (charitable NDPBs) to provide auditors with guidance on planning and performing the audit of the 2013/14 central government financial statements.

111. The notes for guidance provide guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements. The notes also provide guidance on auditors' responsibilities to

- audit and express an opinion on the regularity of expenditure and income
- audit and express an opinion on elements of the remuneration report
- express an opinion on the consistency of the management commentary with the financial statements
- report on other matters such as the governance statement.

112. Auditors should use the appropriate note for guidance when planning and performing the audit of the 2013/14 central government financial statements.

Guidance on emerging issues

The following article provides guidance from the TSU on an emerging issue.

2013/14 Government Banking Service account information

113. The TSU will obtain information on account balances at 31 March 2014 for central government bodies from the Government Banking Service (GBS) and distribute them to relevant auditors. The GBS operates accounts with the Royal Bank of Scotland and Citibank.

114. The GBS has confirmed that the arrangements for 2013/14 are unchanged, and therefore they will require bodies to submit an *Auditor authorisation form* to allow disclosure of account balances to auditors.

115. Auditors should confirm the account details at their bodies have not changed from 2012/13 and that their bodies have submitted an *Auditor authorisation form* to the GBS.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library.*

Amendments to the 2013/14 FReM

116. HM Treasury has issued amendments to chapter 5 of the 2013/14 Government financial reporting manual (the FReM) to include a new requirement for a strategic report. The amendments reflect changes to the *Companies Act 2006* which came into effect in respect of financial years ending on or after 30 September 2013. The FReM now requires a strategic report to form part of the management commentary along with the directors' report.

117. The strategic report is required to disclose information required by section 414C of the *Companies Act 2006* as interpreted by FReM paragraph 5.2.6. This includes disclosing the following information that was previously included in the directors' report

- a fair review of the body's business, and a description of the principal risks and uncertainties facing the body. While the report should be self-standing and comprehensive, it is permitted to provide a summary with adequate cross-references to other documents where they provide the full information required
- an analysis using financial and other key performance indicators
- the main trends and factors likely to affect the future development, performance and position of the body's business
- information about environmental matters
- additional explanations of amounts included in the body's annual accounts.

118. New disclosures include the following

- information on social, community and human rights issues, including information about any policies of the body in relation to those matters and the effectiveness of those policies
- a description of the body's strategy and business model
- a breakdown showing at the end of the financial year the number of persons of each gender who were directors, senior managers and employees of the body. The FReM interprets 'senior manager' as being any member of staff at senior civil service level or equivalent.

119. In addition, FReM paragraph 5.2.8 sets out further disclosures for the strategic report that were previously in the directors' report including

- a note that the accounts have been prepared under an accounts direction
- a brief history of the body and its statutory background
- an explanation of the going concern basis.

120. Section 414D of the Act regarding approving and signing the statutory report does not apply to central government bodies. Instead, the FReM requires it to be signed and dated by the Accountable Officer or Chief Executive.

121. The amendments to the FReM also include a number of changes to disclosure requirements in the remuneration report arising from an amendment to *The Large and Medium-sized Companies and Groups (Accounts and Reports)(Amendment) Regulations 2013*. Although the FReM disapplies most of the additional disclosures, the requirements regarding the single total remuneration figure do apply. This requires the following disclosures in a table for each director (as interpreted by FReM paragraph 5.2.13) during the year

- the total amount of salary and fees
- taxable benefits
- money or other assets receivable for achieving performance targets
- pension related benefits
- the total of the above.

122. Auditors should confirm that audited bodies are aware of the changes to the 2013/14 FReM and are taking the necessary steps to comply.

Review of IFRS issued 2013/14

123. Treasury has issued a review of new IFRS issued and/or effective during 2013/14. The guide lists the standards that have been issued but are not yet effective and therefore require disclosure in 2013/14 in accordance with *IAS 8 Accounting policies, changes in accounting estimates and errors*.

124. The new group accounting standards have been applied to the 2014/15 FReM (see paragraph 129) and IFRS 13 will be applied in 2015/16 (see paragraph 130).

125. Auditors should confirm that their audited bodies are making appropriate disclosures under IAS 8 for standards issued but not yet effective.

Guidance on 2013/14 annual report

126. Treasury has issued PES 2014/2 Guidance on the preparation of 2013/14 annual report and accounts to provide guidance on the annual report component of the 2013/14 annual report and accounts.

127. The guidance applies to all UK Government departments, who may choose to direct agencies and non-departmental public bodies to follow it. The guidance sets out the core content for the annual report, and requires it to present a clear picture of the body's aims, activities, functions and performance linked to expenditure. However, it encourages bodies to remove unnecessary and immaterial information.

2014/15 FReM

128. Treasury has issued the 2014/15 FReM. Changes from 2013/14 that auditors' attention is particularly drawn to are discussed in the following paragraphs.

129. The main new standards adopted in 2014/15 are

- *IFRS 10 Consolidated financial statements*
- *IFRS 11 Joint arrangements*
- *IFRS 12 Disclosures of interests in other entities*.

130. The standards should be applied in full, except for certain continuing adaptations, e.g. in respect of the departmental boundary. *IFRS 13 Fair value measurement* does not apply as the Financial Reporting Advisory Board decided to defer its adoption to 2015/16. Early adoption is not permitted.

131. There have also been changes to the format of the 2014/15 FReM to make it easier to identify the standards that have been adopted as well as the adaptations and interpretations that apply. A list of adopted standards is provided at table 6.1, together with a record of whether they have been adapted or interpreted for the public sector, while table 6.2 provides details of the adaptations and interpretations.

132. Other changes include the following

- An additional reference to clarify that accounting policies need not be developed, or disclosures provided, where they do not apply to a body's circumstances or are immaterial.
- Improvements to the guidance on budgetary controls to identify areas of potential misalignment with accounts, including a new Annex 3 to identify the main differences between budgets and accounting treatment, e.g. capital grants are included in capital budgets but are accounted for as revenue.

133. Auditors should confirm that audited bodies are aware that the 2014/15 FReM has been issued and are taking the necessary steps to comply.

Corporate governance developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library.*

Revised model code of conduct for members

134. The Scottish Government has issued a revised Model code of conduct for members of devolved public bodies to set out key principles of conduct for members of public bodies and provide additional information on how the principles should be interpreted and applied in practice.

135. It is the responsibility of the individual member to make sure that they are familiar with, and comply with, the provisions of the code.

136. The revisions to this edition of the code are to make it consistent with the relevant parts of the code of conduct for councillors that was revised in 2010. The majority of the changes are therefore in section 5 on declaration of interests, e.g. a monetary ceiling of £50 has been introduced above which gifts must be declared.

Other developments

The documents referred to in the following article can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library.*

Finance guidance notes

Amendments to SPFM

137. The Scottish Government has issued Finance guidance note (FGN) 2014/01 to advise of the amendments to the Scottish public finance manual (SPFM), including those summarised in the following paragraphs.

138. The internal control checklist relating to the assurance framework and the signing of the governance statements has been reviewed and guidance notes have been further developed.

139. The housing revenue account (HRA) annex in the local government finance section has been updated to provide additional detail on the general principals underlying the keeping of a HRA in Scotland. The update provides clarification on the Scottish Ministers involvement in the operation of HRAs and details the procedures which local authorities should follow when applying to the Scottish Ministers for consent to dispose of HRA assets.

140. The FGN also announced an amendment to FGN 2009/1 which provides guidance on financial memoranda that accompany Scottish Government bills. The amendment is to clarify

what financial memorandums may need to cover, including reduced costs, additional income and/or increased returns. All references to savings have been changed to benefits.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the appropriate note for guidance referred to at paragraph 112 when planning the audit of the 2013/14 central government financial statements?			
2 Have you carried out the actions requested at paragraph 115 in respect of the GBS account information?			
3 Have you carried out the action recommended at paragraph 122 in respect of the 2013/14 FReM?			
4 Have you carried out the action recommended at paragraph 125 in respect of standards issued but not yet effective?			
5 Have you carried out the action recommended at paragraph 133 in respect of the 2014/15 FReM?			

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Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance on emerging issues

The following article provides guidance from the TSU on an emerging issue.

2013/14 Government Banking Service account information

141. The TSU will obtain information on account balances at 31 March 2014 for health bodies from the Government Banking Service (GBS) and distribute them to relevant auditors. The GBS operates accounts with the Royal Bank of Scotland and Citibank.

142. The GBS has confirmed that the arrangements for 2013/14 are unchanged, and therefore they will require bodies to submit an *Auditor authorisation form* to allow disclosure of account balances to auditors.

143. Auditors should confirm the account details at their bodies have not changed from 2012/13 and that their bodies have submitted an *Auditor authorisation form* to the GBS.

Accounting developments

The documents referred to in the following articles are available to external auditors from Audit Scotland's *Technical reference library*.

2013/14 accounts manual

144. The Scottish Government Health and Social Care Directorates (SGHSCD) has issued the *2013/14 NHS board accounts manual for the directors' report and accounts* (the accounts manual). The accounts manual interprets the accounting guidance contained in the FReM for the NHS in Scotland for 2013/14.

145. The main changes to the accounts manual from 2012/13 are summarised in the following paragraphs.

Consolidation of NHS endowment funds

146. The 2013/14 accounts manual has been amended throughout to reflect that host NHS boards are required to consolidate endowment funds, where material, into their accounts in accordance with *IAS 27 Consolidated and separate financial statements*.

147. The primary statements have been amended to include ‘Consolidated’ in the title and a note added to each primary statement page to say that consolidated financial statements are required.

148. The balance sheet, with relevant comparatives, is now presented in columnar form to include both a consolidated balance sheet incorporating endowment assets and liabilities and a board balance sheet. Endowment funds are now recognised in the taxpayers' equity section of the consolidated balance sheet.

149. Page 32 provides guidance for a line added to the statement of resource outturn to facilitate the removal of the endowment fund net operating cost included in core expenditure from the saving/excess reported against the revenue resource limit.

150. The statement of changes in taxpayers' equity includes disclosure of the movements within the board's endowment funds in the year. For 2013/14, a line has been included to record prior year adjustments.

151. The guidance on the cash flow statement on page 39 states that memorandum lines should be included within the reconciliation of net cash flow section, splitting the net cash (debt) at the end of the year between board and endowment balances.

152. The accounting policy disclosure on page 46 includes suggested wording, including cases where the endowment funds are not consolidated. Where consolidation is not required, this requires to be disclosed and the endowment funds should be disclosed in note 29 as related party transactions. Guidance on the related party disclosure is included in note 32 on page 124.

153. The preparation of consolidated accounts for those boards where the endowment fund balances are considered material means that a prior year adjustment is required. Note 25 should record the required adjustments for the consolidation of the endowment funds. The restated primary statements are to be shown at note 26.

154. The primary financial statements have been amended for various additional disclosures required for the consolidated entity. Consolidation adjustments are included in Note 33.

Administration costs

155. The guidance on page 72 regarding the disclosure of board members remuneration has been updated to reflect the approach adopted by the SGHSCD in 2012/13. The executive directors to be included in the note 6 should only include the five voting directors. The amount disclosed for the employee director should be the costs associated with their board duties, with their total remuneration shown in the remuneration report.

Intangible assets

156. The guidance on note 10 intangible assets has been updated to refer to the carbon reduction commitment (CRC) scheme and remove references to the EU emissions cap and trade scheme. It explains that participation in the CRC scheme gives rise to a liability related to emissions made.

157. Purchased allowances give rise to an asset which is classified as either a current or non-current intangible asset or, if held for the purpose of trading, as a current asset. The asset should be measured initially at cost and revalued at fair value where there is evidence of an active market.

Provisions

158. Page 103 has been updated to reflect that the discount rate for post-employment benefits will change from 2.35% real to 1.80% real with effect from 31 March 2014.

159. The accounts manual also refers to PES(2013)7 (see TB 2013/4 - paragraph 108) which sets out the discount rates for general provisions from 2013/14. They are as follows

- The short term rate (for cash-flows up to 5 years from the statement of financial position date) is minus 1.90%.
- The medium term rate (between 5 and 10 years) is minus 0.65%.
- The long term rate (more than 10 years) is unchanged at 2.20%.

Directors' report

160. The guidance on the preparation of the directors' report has been amended to remove the Research Ethics and Discipline Committee from the list of standing committees of the board. This is consistent with the current guidance around the committees boards are required to operate. Boards may want to continue to disclose their arrangements in these areas.

161. Auditors should confirm that their boards are aware that the accounts manual has been issued and consider the implications for the audit of the 2013/14 financial statements.

2013/14 capital accounting manual

162. The SGHSCD have issued the *2013/14 NHS capital accounting manual* to interpret the accounting guidance contained in the 2013/14 FReM on capital accounting issues in the NHS. The main changes from the previous version are as follows

- Chapter 6 has been updated to reflect the availability of non-cash departmental expenditure limit (DEL) funding that could be used for DEL funded impairments.
- Chapter 10 highlights that boards should review their accounting policies for consolidating endowment funds to ensure that items are treated in a similar manner on consolidation. For example, property, plant and equipment at boards is valued at current replacement cost but historical cost may have been used for endowment fund assets. Boards should consider if a change in policy or valuation of endowment assets will be required to prepare their consolidated balance sheet.

163. Auditors should confirm that their boards are aware that the capital accounting manual has been issued and consider the implications for the audit of the 2013/14 financial statements.

Governance developments

The document referred to in the following article is available to external auditors from Audit Scotland's *Technical reference library*.

Corporate governance

2013/14 guidance on governance statements

164. The SGHSCD have issued guidance on the preparation of governance statements for inclusion with the 2013/14 financial statements. The guidance is intended to assist boards identify sources of assurance and evidence of compliance to be considered when preparing the governance statement. The format of the governance statement and the extant guidance on governance issues are set out in annexes to the letter.

165. It is for the Accountable Officer to decide how to organise the governance statement but the guidance sets out the essential features. It states that the governance statement should provide an overview of

- the governance framework, including information on the board's committee structure. While a summary of the work of the audit committee is mandatory, disclosure on the work of other committees should only be included if they have had a significant governance issue
- an assessment of the effectiveness of board's performance
- an assessment of the board's compliance with the SPFM, with explanations for any departures. This is a change from 2013/14 as the previous requirement related to the *UK*

Corporate governance code. Auditors should note that this means that changes to international standards on auditing that relate to entities reporting compliance with that code (see TB 2013/2 - paragraph 20) do not apply to health boards

- information about the quality of data used by the board, and why the board finds it acceptable
- risk management, including the board's risk profile. While avoiding lengthy descriptions of process, the statement should comment on the effectiveness of risk management and internal control
- any significant control weaknesses for significant risks that have materialised or are anticipated. The guidance sets out factors to be considered when assessing significance.

166. The guidance also covers

- the review of the effectiveness of the internal control framework by the chief executive. At a minimum, this should cover an assessment of the effectiveness of governance, risk management and internal control arrangements. Boards may include a link to an online copy of their diagnostic self-assessment, rather than providing the full detail within the statement.
- sources of assurance, including the work of internal and external audit
- the role of the audit committee for reviewing the disclosures included in the governance statement. The audit committee should receive the information provided to the chief executive in support of the governance statement and should also consider in advance the other information it wishes to receive. It may wish to receive from external auditors a description of their processes and judgements in the review of the reliance that can be placed on the work of internal audit.

167. The governance statement is required to be approved by each board’s chief executive, and endorsed by its audit committee along with the financial statements.

168. The guidance highlights that boards should have in place a framework that provides overt assurance on best value for 2013/14.

169. Boards are required to apply the guidance fully and consistently to enable the Scottish Government Health and Wellbeing Audit Committee to form an opinion on internal control across NHSScotland. The Chair of boards’ audit committees are also required to send a letter to the chief accountable officer of NHSScotland to advise of any governance issues that should be brought to their attention. As a minimum, this letter should include the issues disclosed in the governance statement.

170. Auditors should confirm that their boards are aware of this guidance, and they are taken the necessary steps to comply. Guidance for auditors on reviewing the governance statement will be provided in due course.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Pay and workforce planning

2013 consultants distinction awards

171. The Scottish Advisory Committee on Distinction Awards (SACDA) has published its Annual report 2013 which sets out the results of the 2013 awards round for distinction awards to consultants in NHS Scotland.

172. The awards budget for 2013 was frozen and no new awards were made in the year. SACDA instead reviewed existing awards in line with the five yearly review procedures, and recommended the continuation of all 102 awards.

173. The report includes a list of all distinction award holders as at 30 September 2013. There were a total of 399 consultants holding distinction awards, which is 8% of all consultants. Retirals among consultants during the year have resulted in a reduction of 41 in the number of awards held.

174. The rates for distinction awards remain those set out in PCS(DD)2010/5.

Updated joint appointments guide

175. The Scottish Government has issued a Joint appointments guide to provide updated guidance on joint appointments between health organisations and local government in Scotland.

176. A joint appointment relates to separate organisations developing shared staffing arrangements to recruit someone to work for all the organisations. Specifically in the social care and health sectors, joint appointments help deliver partnership working, integrated management and planning, and service integration.

177. The guide provides guidance on setting up, maintaining and reviewing joint appointments. It has been updated to reflect the current policy context regarding health and social care integration, but remains largely unchanged from the previous 2004 version.

2013/14 statement of financial entitlements for GPs

178. The Scottish Government has issued PCA(M)(2014)1 to advise of a change to the statement of financial entitlements (SFE) for GP contractors for 2013/14. The SFE relates to payments to be made by health boards to a contractor under a general medical services (GMS) contract.

179. The previous version has been amended to increase the global sum from £408.9 million to £409.3 million to take account of the transfer of the organisational core standard payment.

Revised PIN policy

180. The Scottish Government has issued CEL(2013)31 to advise boards of the publication of a revised partnership information network (PIN) policy on equality, diversity and human rights in NHSScotland.

181. PIN policies aim to achieve a consistent approach in the way NHSScotland deals with its employees. They provide up to date guidance on people management issues and are intended as a foundation for local strategies. Where local adaptations are agreed, these should meet the minimum standards set out in the nationally agreed policies.

182. The staff governance standard requires implementation of PIN policies. Boards will be expected to provide evidence of adherence to the policies as part of the annual staff governance monitoring return and annual review process.

Capital

2013 report on the NHS estate

183. NHSScotland has published the Annual state of the NHSScotland assets and facilities report for 2013 to highlight best practice and areas for improvement in the management of the NHS estate.

184. This third annual report reviews asset and facilities management performance and covers all NHSScotland owned and leased physical assets (i.e. property, vehicles, medical equipment, and technology). Key points include the following

- NHSScotland owns physical assets valued at £5 billion, most of which relates to land and buildings. Leased assets, including public private partnership projects, amount to a further £1.5 billion.
- There is a backlog maintenance expenditure requirement of £858 million, which is a reduction of £90m since 2012. However, investment in new facilities, disposals and planned maintenance expenditure is intended to reduce this backlog significantly.
- Property maintenance accounts for 18% and PFI facilities management 16% of the annual property and facilities service costs.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

National health service

185. The Health Boards (Membership and Elections) (Scotland) Order 2013 (SSI 364) came into force on 31 December 2013 to end the pilot schemes for health board elections in Fife and Dumfries and Galloway Health Boards.

186. The National Health Service (Variation of Areas of Health Boards) (Scotland) Order 2013 (SSI 347) aligns health board areas with the combined area of each local authority set out in a Schedule. The order comes into force on 1 April 2014, except for provisions relating to transfers between NHS Greater Glasgow and Clyde and NHS Lanarkshire which came into effect on 1 February 2014. The order also provides for those two boards to make consequential transfers of property, rights and liabilities, and adjustment of the lists of health professionals.

Publications

The following publication published since TB 2013/4 can be obtained by using the hyperlink.

Audit Scotland

Management of patients on NHS waiting time lists update

187. This update from Audit Scotland Management of patients on NHS waiting time lists update focuses on the progress by the NHS in managing waiting lists. Key messages include the following

- Boards are putting in place better controls and audit trails in the systems they use to manage, monitor and report on waiting lists. In particular, there is a stronger focus on how boards record and monitor the reasons for patient unavailability.
- The percentage of people waiting over 12 weeks for an outpatient appointment has increased from 3% to 5%. The guarantee that all eligible people receive inpatient treatment within 12 weeks is challenging, and only three boards have achieved this each month since the guarantee was introduced.
- The use of unavailability codes continues to reduce. The introduction of new guidance and specific unavailability codes has assisted boards, but it is taking time for the IT systems to be updated.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the actions requested at paragraph 143 in respect of the GBS account information?			
2 Have you carried out the actions requested at paragraph 161 in respect of the 2013/14 accounts manual?			

	Yes/No/N/A	Initials/date	W/P ref
3 Have you carried out the actions requested at paragraph 163 in respect of the 2013/14 capital accounting manual?			
4 Have you carried out the actions requested at paragraph 170 in respect of the guidance on the governance statement?			

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance on emerging issues

The following article provides guidance from the TSU on an emerging issue.

Severance arrangements for senior staff

188. Auditors will be aware that many colleges are running voluntary severance schemes as a result of the structural changes in the sector. Audit Scotland has therefore asked auditors to ensure that severance arrangements, particularly those in respect of senior staff, are being given sufficient attention.

189. The Scottish Funding Council (SFC) Guidance on severance arrangements sets out requirements and best practice in this area. It includes the following key requirements

- Colleges should have a clear policy on severance, which complements their current contract terms, and should obtain appropriate legal advice when drafting it.
- Responsibility should be clearly allocated to individuals and committees.
- The task of agreeing individual cases should be delegated to the remuneration committee.
- Severance arrangements, including notice periods, should be determined based on the terms of an employee's contract of employment. Where an exceptional arrangement is being considered, documentation is required to demonstrate how this provides value for money.

- Senior staff should be expected to work their contracted period of notice unless other agreed terms are mutually agreed.
- Colleges should not agree to confidentiality clauses unless it is necessary to protect commercially sensitive information.

190. Auditors should confirm that severance arrangements at their colleges are in accordance with the SFC's guidance.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Reclassification of incorporated colleges

191. The SFC has published further communications on issues resulting from the Office of National Statistics' reclassification of colleges as central government bodies for budgeting and accounting purposes from 1 April 2014.

Compliance with the FReM

192. Communication number 10 provides details of the disclosures required in colleges' financial statements to comply with the FReM.

193. A pilot exercise has been undertaken to identify the impact of the FReM which involved restating the 2011/12 financial statements of Aberdeen College to provide a worked example of how the additional disclosures and restatements may work in practice. A report on the results of the exercise prepared by Henderson Loggie is provided as an appendix to the communication.

194. While colleges will be required to comply with the FReM, the *Statement of recommended practice: accounting for further and higher education* (the SORP) will take precedence. The report therefore concludes that

- there is no requirement to change the accounting treatment of any items with the possible exception of assets held at historical cost
- the primary accounting statements remain the same
- some additional disclosure is required, including a remuneration report and an estates strategy to be included in the operating and financial review
- there will be some areas where colleges will be required to consult with the SFC as the relevant authority, e.g. prior year adjustments, and change to useful lives, asset categories, capitalisation thresholds, and methods of calculating a provision.

195. The new IFRS-based SORP will become effective in 2015/16, and further guidance will be provided then.

Management of cash-flow and grant in aid

196. Communication number 11 provides guidance on the management of cash-flow and the payment of SFC grant in aid for colleges, specifically the completion of the following

- An annual proforma to advise the SFC of the college's projected grant in aid requirement and the projected cash-flow.
- A monthly pro-forma stating colleges' cash requirements for that month and their projected future cash requirement to ensure SFC do not make payment ahead of need.

Completion of resource returns

197. Communication number 12 provides guidance on the completion of annual resource budget and capital resource budget returns. Colleges will be required to submit annual proformas covering

- the annual resource budget to present summarised budget information
- the total SFC funding recognised in the financial year reconciled to the annual cash figure contained in the annual resource budget pro-forma
- the capital resource budget requirement which should indicate the proposed capital expenditure for the year with sources of funding
- an expenditure to resource reconciliation with income and operating expenditure calculated in line with the SORP and resource calculated in line with Treasury guidance.

Accounting year end

198. Communication number 13 advises that the constituent colleges of the University of the Highlands and Islands (UHI) may potentially retain the 31 July as their accounting year end date.

199. The concession is intended to prevent the UHI colleges from having to move to a different reporting and accounting timetable than UHI itself (i.e. 31 July). However, the colleges will still move to a 31 March year-end for budgetary and cash control purposes, and discussions are ongoing to determine the information that Treasury will require at 31 March. If the information requirements are considered onerous, colleges will retain the option to move to a 31 March accounting year-end. Colleges should therefore ensure that reliable financial information is collated at 31 March 2014 to allow for that option.

200. If the information requirements are not considered too onerous, non-UHI colleges may also be able to retain the 31 July accounting year end. However, the communication recommends that they continue to plan for the production of accounts to 31 March 2014.

201. The other changes associated with reclassification as central government bodies are not influenced by the year end issue and therefore continue as planned:

202. Auditors should confirm that their colleges are aware of this guidance and are continuing to prepare for a 31 March 2014 accounting year end.

Implementation checklist

203. The SFC has issued a checklist which sets out a timetable for the changes arising from reclassification. The checklist sets out a framework for implementing the changes and includes the following items

- An annual exercise to capture *Annually managed expenditure* which is likely to take place each autumn.
- The *Financial forecast return* which will be retained to provide the SFC with an overview of colleges' financial sustainability. It will normally be required in February but, as a transitional measure, the return for 2013/14 will be required in June 2014.
- The deadline for the submission of the 2015/16 *Whole of government accounts* return which is August 2016.

Memorandum for umbrella charitable foundation

204. The SFC has published the *Memorandum of association of the Scottish Colleges Foundation* which sets out the objects and powers of the umbrella charitable foundation, which is named The Scottish Colleges Foundation. Its objects are to advance and promote further and higher education in Scotland by the support of colleges, and promote similar charitable purposes as the trustees think fit. The income and property of the foundation is to be applied solely towards the promotion of its objects.

205. A sub-fund will be established for each college. The trustees will produce annual accounts showing each sub-fund as a restricted fund within the foundation for use only for the benefit of the respective college.

206. An advisory group, made up of representatives appointed by the college boards of management, will be established for each college sub-fund to provide information and advice to the trustees regarding the intended projects and spending of the college. The trustees must have regard to the information given to them by the advisory group but will continue to have sole responsibility for determining how the funds will be applied.

Letter on non-consolidation of local charitable foundations

207. The SFC has issued a letter to colleges asking them to establish whether external auditors are satisfied that their local charitable foundations do not require to be consolidated in the college's financial statements.

208. Colleges were asked to confirm that their auditor has examined the documentation for their local charitable foundation and confirmed that it does not require to be consolidated. The letter also asks for information on any concerns raised by auditors and the mitigating actions that are being taken.

209. *FRS 2 (revised) Accounting for subsidiary undertakings* sets out the conditions under which a college is a parent undertaking which should prepare consolidated financial statements. As well as direct control through voting rights, the conditions include the exercise of dominant influence.

210. Paragraph 209 of the SORP states that dominant influence may arise where the objects of another entity are substantially or exclusively confined to the benefit of the college. This may be the case, for example, where the objects of a charitable foundation are set so narrowly that the benefits cannot be applied to any party other than the college.

211. Auditors should examine the documentation for their college's local charitable foundation and assess whether it requires to be consolidated either due to direct control or the exercise of dominant influence.

212. The letter also highlighted that the majority of trustees are required to be independent (i.e. no present links to the college) including the chair by 31 March 2014. Colleges were asked to confirm that this will be the case.

213. Colleges were advised that the deadline for notifying the SFC if they wish to join the umbrella foundation was 28 February 2014.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

SFC communications

214. The SFC has replaced the umbrella term 'circulars' with six new categories of communications from 1 January 2014. The new categories include

- announcements
- consultations
- guidance.

Finance

2014/15 funding

215. The SFC has issued SFC/AN/01/2014 to provide colleges with initial decisions on funding outcome agreements for academic year 2014/15. Funding is moving towards a needs-based system of allocation subject to negotiation based on an agreed evidence base rather than formula. The letter sets out the following specific funding arrangements

- The financial year budget is £521.7 million, with academic year allocations of £526.3 million
- Capital funding of £26.6 million has been allocated in the same manner as in financial year 2013/14
- Other funds include the student support bursary, a strategic fund for existing projects and wider support for the sector, the employability fund, and European funding.

216. The allocations, and a timetable for payments, are set out in appendices to the announcement.

2013/14 student support funds

217. The SFC has issued SFC/04/2013 which provides information on the outcome of the in-year redistribution of student support funds for academic year 2013/14. The circular details the amounts of student support funding

- relinquished by colleges in 2013/14
- clawed-back from colleges from 2011/12
- re-distributed to colleges in 2013/14.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

218. The Post-16 Education (Scotland) Act 2013 (Commencement No 2) Order 2013 (SSI 348) came into force on 13 January 2014 and brings into force provisions of the Act relating to the functions of regional colleges and other minor modifications.

219. The Colleges of Further Education (Transfer and Closure) (Scotland) Order 2013 (SSI 354) came into force on the 22 February 2014 and transferred on 22 February 2014 the whole property, rights, liabilities and obligations from the following seven colleges to the new colleges' boards of management

- Central College Glasgow, Glasgow College of Building and Printing, Glasgow College of Food Technology and Glasgow College of Nautical Studies to the City of Glasgow College.
- Clackmannan College of Further Education to the Forth Valley College.
- Fife College of Further and Higher Education and Glenrothes College to the Fife College.

220. The Post-16 Education (Scotland) Act 2013 (Commencement No 3 and Transitory and Savings Provisions) Order 2014 (SSI 21) brings into force certain provisions of the Act on 3 March 2014. The order makes transitory modifications and saving provisions

- concerning regional strategic bodies which are not yet in force
- in relation to equal opportunities
- so that the provisions of the 1992 Act continue to apply in relation to boards of management.

221. The Designation of Regional Colleges (Scotland) Order 2014 (SSI 22) came into force on 3 March 2014 and designates each of the ten listed colleges as a regional college.

222. The Coatbridge College (Transfer and Closure) (Scotland) Order 2014 (SSI 52) comes into force on 1 April 2014 to transfer the whole property, rights, liabilities and obligations of the

college to the New College Lanarkshire board of management, and provides for staff to transfer without a break in employment.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the actions requested at paragraph 190 in respect of severance arrangements?			
2 Have you carried out the actions requested at paragraph 202 in respect of the accounting year end.			
3 Have you carried out the actions requested at paragraph 207 in respect of the consolidation of local charitable foundations?			

Contact points

Specific enquiries or requests for further information relating to articles contained in each chapter of this TB should be made to

Contact	Chapter
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Tim Bridle, Manager - Local Government (Technical) 0131 625 1793 tbridle@audit-scotland.gov.uk	Local authority (Non-benefits developments)
Anne Cairns, Manager – Benefits (Technical) 0131 625 1926 acairns@audit-scotland.gov.uk	Local authority (Benefits developments only)
Neil Cameron, Manager - Central Government and Health (Technical) 0131 625 1797 ncameron@audit-scotland.gov.uk	Central government and Health
Helen Cobb, Technical Adviser (Central Government and Health) 0131 625 1901 hcobb@audit-scotland.gov.uk	Central government Health and Further education

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Technical bulletin 2014/2

April to June

AUDIT SCOTLAND

Prepared by the Technical Services Unit
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements (and equivalent statements) and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

It is important that auditors read this technical bulletin promptly so they are familiar with the information and guidance provided. The auditor action checklist section at the end of each chapter should be completed by a senior member of the audit team.

While auditors act independently, and are responsible for their own conclusions and opinions, the TSU has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow TSU guidance. Auditors should advise the TSU promptly if they intend not to follow any guidance on an important issue**.

TBs are available to external auditors from Audit Scotland's *Technical reference library,* and published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

Audit Scotland makes no representation as to the completeness or accuracy of the contents of TBs or that legal or technical guidance is correct. Points of law, in particular, can ultimately be decided only by the Courts. Audit Scotland accepts no responsibility for any loss or damage caused as a result of any person relying upon anything contained in a TB.

Headlines

The table in this chapter provides brief headlines for the content of this TB, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Audit year	Paragraphs
The TSU has published a note for guidance on 2013/14 model auditor's reports.	2013/14	1
The International Accounting Standards Board has issued		
• a new standard on revenue from contracts with customers	2017/18	6
• an amendment to *IFRS 11 Joint arrangements*	2016/17	11
• amendments to *IAS 16 Property, plant and equipment and IAS 38 Intangible assets*	2015/16	13
• proposed amendments to *IAS 1 Presentation of financial statements*.	Not yet known	20
The Financial Reporting Council has issued		
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• a revised statement on true and fair	2013/14	25
• a bulletin for auditors on the strategic report	2013/14	30
• research results on the value of audit.	2013/14	38
The International Auditing and Assurance Standards Board has issued proposed amendments to auditing disclosures.	Not yet known	35
The Chartered Institute of Public Finance and Accountancy has issued a proposed code on fraud and corruption.	Not yet known	42

Cross-sectoral chapter	Audit year	Paragraphs
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The Scottish Parliament Information Centre has issued a briefing on *Private finance initiative* unitary charges.	2013/14	51
Audit Scotland has published		
• a follow-up report on Scotland's public finances	2013/14	56
• a report on self-directed support.	201314	57
The TSU has provided a summary of some reported fraud cases.	2013/14	58

Local authority chapter	Audit year	Paragraphs
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• published a grant note providing general guidance on the certification of 2013/14 grant claims	2013/14	66
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• provided guidance on		
– local schemes of financial assistance	2013/14	88

Local authority chapter	Audit year	Paragraphs
– voting rights of committee members.	2013/14	90
The Local Authority (Scotland) Accounts Advisory Committee has issued an exposure draft of interim guidance on accounting for landfill sites.	2013/14	91
The Chartered Institute of Public Finance and Accountancy has issued • a new guidance manual on capital accounting • a bulletin on the 2013/14 accounts • a technical alert on the frequency of asset valuations • the 2014/15 *Code of practice on local authority accounting*.	2013/14 2013/14 2013/14 2014/15	104 111 120 124
PricewaterhouseCoopers has issued a report on 2013/14 actuarial information.	2013/14	150
The Scottish Government has issued • guidance on *Tax incremental financing* schemes • guidance on borrowing to on-lend to registered social landlords • a circular on 2014/15 funding.	2013/14 2014/15 2014/15	157 191 207
HM Treasury has issued guidance on collecting 2013/14 whole of government accounts data.	2013/14	200
The Department for Work and Pensions has issued • circulars on		

Local authority chapter	Audit year	Paragraphs
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– 2014/15 administration funding	2014/15	177
– temporary accommodation	2014/15	179
– discretionary housing payments	2014/15	183
– actions to reduce qualifications of subsidy claims	2014/15	188
• a letter on the Single Fraud Investigation Service.	2014/15	186
Statutory instruments have been passed		
• on 2014/15 funding	2014/15	209
• to amend the definition of 'persons from abroad' for housing benefit purposes	2014/15	210
• to specify the types of accommodation for which housing benefit is payable	2014/15	211
• to introduce a new local government pension scheme.	2015/16	212
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• an overview of local government	2012/13	213
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• procurement.	2013/14	215

Central government chapter	Audit year	Paragraph
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The Cabinet Office has issued guidance on the preparation of remuneration reports for 2013/14.	2013/14	219

Central government chapter	Audit year	Paragraph
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The National Audit Office has published • a review of the value for money assessment for the *Private finance initiative* • a guide to understanding central government's accounts.	2013/14 2013/14	230 232

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Health chapter	Audit year	Paragraph
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Audit Scotland has issued an update report on performance against the accident and emergency waiting time standard.	2013/14	261

Further education chapter	Audit year	Paragraph
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Statutory instruments have been passed to • commence sections of the *Post 16 Education (Scotland) Act 2013* • assign colleges to the Regional Board for Glasgow Colleges.	2014/15 2014/15	284 285

Further education chapter	Audit year	Paragraph
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Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments should be sent to pobrien@audit-scotland.gov.uk

TSU developments

Guidance notes

The following guidance note has been published by the TSU since TB 2014/1. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on 2013/14 model auditor's reports

1. The TSU has published Note for guidance 2014/8 2013/14 model independent auditor's reports on the financial statements to provide auditors with model forms of auditor's reports on the 2013/14 financial statements, and guidance on their use.
2. The wording of the model reports for each type of body is based on the illustrative examples contained in the Financial Reporting Council (FRC) *Bulletin 2010/2 (Revised) Compendium of illustrative auditor's reports on United Kingdom private sector financial statements*. The wording in the bulletin has been amended by the TSU to reflect public sector legislation and the requirements of Audit Scotland.
3. The note for guidance provides guidance on the application of the model reports. It also provides guidance on modifications to the audit opinions, and the consequent changes that

require to be made to wording in each case, as well as guidance on 'emphasis of matter' paragraphs and 'other matter' paragraphs.

4. The note refers to the other relevant sources of guidance for the opinion on the financial statements and the other reporting requirements provided by the TSU, e.g. regularity opinion, remuneration reports, governance statements etc. It also includes guidance and clarification in respect of the other information in a document containing financial statements.

5. Auditors should use these model reports and the application guidance when reporting on the audit of 2013/14 financial statements.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

New standard on revenue from contracts with customers

6. The International Accounting Standards Board (IASB) has issued *IFRS 15 Revenue from contracts with customers* on the recognition of revenue from contracts with customers, which is effective from 1 January 2017 with earlier application permitted.

7. IFRS 15 establishes a comprehensive framework for determining when to recognise revenue and the amount to recognise. The core principle is that an organisation should recognise revenue for the transfer of promised goods or services to reflect the consideration expected in exchange for those goods or services.

8. For straightforward retail transactions, the new standard will have little effect. For long-term service contracts and multiple-element arrangements, it could result in some changes either to the amount or timing of the revenue recognised.

9. To recognise revenue under IFRS 15, an organisation would apply the following five steps

   - Identify the contract with the customer. A contract is an agreement between two or more parties that creates enforceable rights and obligations. An organisation would apply IFRS 15 to each contract that has commercial substance and meets other specified criteria, e.g. whether it is probable that the organisation will collect the consideration to which it will be entitled.
   - Identify the performance obligations in the contract. These are promises to transfer to a customer distinct goods or services. In determining whether they are distinct, an organisation considers if the customer can benefit from the good or service on its own and whether the organisation's promise is separately identifiable from other promises in the contract.
   - Determine the transaction price. This is the amount of consideration to which an organisation expects to be entitled in exchange for transferring promised goods or services to a customer.

- Allocate the transaction price. An organisation would typically allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service.
- Recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service).

10. IFRS 15 requires an organisation to disclose quantitative and qualitative information on
    - revenue recognised from contracts with customers, including the disaggregation of revenue into appropriate categories
    - contract balances, including the opening and closing balances of receivables, contract assets and contract liabilities
    - performance obligations, including when the organisation typically satisfies its performance obligations and the amount of the transaction price that is allocated to the remaining performance obligations
    - significant judgements made in applying the requirements.

Amendment to IFRS 11

11. The IASB has issued *Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11)* which contains an amendment to *IFRS 11 Joint arrangements* that comes into force from 1 January 2016.

12. The amendment introduces guidance on accounting for the acquisition of an interest in a joint operation that constitutes a business. In order to address the significant diversity of treatment that has arisen in practice, it clarifies that the relevant principles and disclosures for business combinations accounting in *IFRS 3 Business combinations* and other standards apply.

Amendments to IAS 16 and IAS 38

13. The IASB has issued *Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38)* which contains amendments to *IAS 16 Property, plant and equipment* and *IAS 38 Intangible assets* with effect from 1 January 2015. Both standards establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.

14. The amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because this reflects factors other than the consumption of the economic benefits embodied in the asset.

15. The amendments also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, may be rebutted in certain limited circumstances.

Guidance on strategic report

16. The Financial Reporting Council (FRC) has issued Guidance on the strategic report to provide a best practice statement on preparing the strategic report. Technical bulletin 2013/4 (paragraph 9) advised that the *Companies Act 2006* had been amended to require the preparation of a strategic report for financial years ending on or after 30 September 2013. The strategic report is required to contain

    - a fair review of the company's business, which should be a balanced and comprehensive analysis of the development and performance of the business during the financial year, and the position at the end of that year
    - a description of the principal risks and uncertainties facing the company.

17. As advised in technical bulletin 2014/1 (paragraph 16), the *2013/14 Government financial reporting manual* (FReM) applies the requirements for a strategic report to central government and health bodies (see paragraph 239).

18. The guidance focusses on clear and concise narrative reporting, and replaces the *Reporting statement: operating and financial review*. It recommends that a strategic report should

    - be understandable, concise and forward-looking
    - include entity-specific information
    - link related information in different parts of the annual report and accounts
    - include information that is material to shareholders.

19. The FRC has also issued a bulletin on auditors' responsibilities in respect of the strategic report (see paragraph 30).

Proposed amendment to IAS 1

20. The IASB has issued ED/2014/1 Disclosure initiative - Amendments to IAS 1 which proposes amendments to *IAS 1 Presentation of financial statements*. The proposals arise from a short-term project under the *Disclosure initiative* to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying IAS 1.

21. There is a proposal to amend the materiality requirements in IAS 1 to emphasise that

    - entities should not aggregate or disaggregate information in a manner that obscures useful information, e.g. by aggregating items that have different characteristics or by overwhelming useful information with immaterial information
    - when a standard requires a specific disclosure, the resulting information should be assessed to determine whether it is material and consequently whether presentation or disclosure of that information is warranted.

22. There is also a proposal to amend the requirements for presentation in the statement of financial position and in the statement of profit or loss and other comprehensive income by

- clarifying that the presentation requirements for line items may be fulfilled by disaggregating a specific line item when such presentation is relevant to an understanding of the entity's financial position or performance
- introducing requirements that subtotals should be
  - made up of items recognised and measured in accordance with international financial reporting standards (IFRS)
  - presented and labelled in a manner that makes what constitutes the subtotal understandable
  - consistent from period to period.

23. There is also a proposal to clarify that entities have flexibility regarding the order for the notes, and to emphasise that they should consider the understandability and comparability of the financial statements when deciding on the order.

24. Comments should be made via the IASB website by 23 July 2014.

Revised statement on true and fair

25. The FRC has issued a statement True and fair that reconfirms that a true and fair view remains a fundamental requirement of financial reporting. The true and fair requirement has been fundamental to accounting in the UK for many years and this has not been changed by the introduction of IFRS. In the vast majority of cases a true and fair view will be achieved by compliance with accounting standards and by additional disclosures to fully explain an issue.

26. However, the preparation of financial statements cannot be reduced to a mechanistic following of the relevant accounting standards, and objective professional judgement must be applied at all stages. Where directors and auditors do not believe that following a particular accounting policy will give a true and fair view, they are required to adopt a more appropriate policy, even if this requires a departure from a particular standard (i.e. a true and fair override). These circumstances are likely to arise where the precise circumstances were not contemplated during the development of the relevant standard.

27. However, disagreement with a particular standard does not, on its own, provide grounds for departing from it. Where the accounting standards clearly address an issue, but the requirements are insufficient to fully explain it, the solution is normally additional disclosure.

28. Although IFRS does not contain a separate standard that requires financial statements to reflect the substance of a transaction rather than its legal form, this does not mean that this concept has no place in IFRS. IAS 8 states that for information to be reliable, it must be reported in accordance with economic substance, rather than strictly in adherence to its legal form.

29. In order to properly discharge their responsibilities, auditors should stand back as they reach their opinion and consider whether, viewed as a whole and in view of the issues that they have addressed in the course of the audit, the financial statements give a true and fair view.

Auditing developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Bulletin on strategic report

30. The FRC has issued Bulletin 4 Recent developments in company law etc. that affect auditor's reports which explains auditor's responsibilities in respect of the strategic report and other recent developments affecting the auditor's report.

31. The *Companies Act 2006* requires auditors to state in their report on the financial statements whether the information given in the strategic report is consistent with those financial statements. This is the same statutory reporting responsibility as applies to the directors' report. When reporting on the strategic report, auditors should therefore apply *ISA (UK&I) 720 Section B The auditor's statutory reporting responsibility in relation to the directors' report* to the extent it is applicable.

32. In a related change, the *Companies Act 2006* previously permitted a company to send a summary financial statement to persons who were entitled to receive full copies of the accounts and reports. The reference to 'summary financial statement' in the Act has now been replaced with a copy of the 'strategic report and supplementary material'. The supplementary material is required to

- contain a statement that the strategic report is only part of the company's annual report and accounts
- state how a full copy of the annual report and accounts can be obtained
- state whether the auditor's opinions on the financial statements and on the consistency with the strategic report were unqualified or qualified and, if either was qualified, set out the report in full
- contain a copy of the part of the remuneration report which sets out the single total figure table in respect of the directors' remuneration.

33. There was a requirement for the summary financial statement to contain an opinion expressed by the auditor as to whether it was consistent with the full annual financial statements and the directors' report. The new requirements relating to a stand-alone strategic report and supplementary material do not require an opinion by the auditor to be included (although see paragraph 218 for cases where bodies continue to include a summary financial statement in a separate annual report). The auditor's procedures are to

- ensure that the stand-alone strategic report is the same as the strategic report published in the annual report and accounts
- assess whether the requirements for the supplementary material have been complied with.

34. The bulletin also refers to the new requirement for the remuneration report to include a table for the single total remuneration figure in respect of each director during the financial year (also see paragraphs 220 and 249). Auditors are required to state whether in their opinion the part of the remuneration report to be audited has been properly prepared in accordance with the Act, and the bulletin confirms that the information covered by the opinion includes the remuneration table.

Proposed amendments to auditing disclosures

35. The International Auditing and Assurance Standards Board (IAASB) has issued Addressing disclosures in the audit of financial statements - exposure draft which proposes changes to certain international auditing standards in respect of disclosures. The IAASB believes that the proposed changes, which are mainly to application material in the standards, are an appropriate response to

- concerns raised about the need to clarify the expectations of auditors when auditing financial statement disclosures
- the need for additional guidance to assist auditors in addressing the practical challenges arising from the evolving nature of disclosures.

36. The main proposed changes include

- clarifying in *ISA 200 Overall objectives of the independent auditor etc* that the definition of financial statements in the standards includes all disclosures
- encouraging auditors in *ISA 260 (Revised) Communication with those charged with governance* and *ISA 300 Planning an audit of financial statements* to discuss matters related to disclosures early in the audit process
- clarifying in *ISA 450 Evaluation of misstatements identified during the audit* that misstatements in disclosures should be accumulated and the effect considered in light of the financial statements as a whole.

37. Responses to the exposure draft should be submitted via the IAASB website by 11 September 2014.

Research into audit value

38. The FRC has issued Improving confidence in the value of audit - research report which sets out survey results on the current perceptions of the value of external audit among a number of stakeholder groups.

39. The study found that the stakeholders most closely involved with the day-to-day audit process (e.g. audit firms, accounting bodies, finance directors and audit committee chairs) have the highest levels of confidence in the value of audit. However, they believe that there is an 'expectation gap' between what the public understands and expects and what audit is actually designed to do, and feel there is a need for the profession to better communicate its role both to the wider public and the business community.

40. Stakeholders with less involvement in the day-to-day process (e.g. regulators, investors, and politicians) have less confidence in the current audit arrangements and are likely to propose changes to the process, culture and competitive environment. They have concerns regarding

- how audit services are delivered and the qualities of auditors
- independence (and they support policy interventions that aim to increase the independence and transparency of the audit process, such as mandatory rotation, mandatory retendering or limiting non-audit fees)
- whether audit provides enough value to investors and the public.

41. Stakeholders that are part of the wider financial community (e.g. journalists and academics) are the least confident group of stakeholders and are more likely to demand large-scale conceptual and structural re-assessment of audit.

Corporate governance developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Proposed code on fraud and corruption

42. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued Code of practice on managing the risk of fraud and corruption - consultation draft to provide the basis for counter-fraud arrangements across the public sector.

43. The draft code consists of the following principles that set out a body's responsibilities for establishing good counter-fraud practice

- The governing body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.
- Fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats, and the potential consequences to the organisation and its service users.
- An organisation needs a counter-fraud strategy setting out its approach to managing its risks and defining responsibilities for action, and should make arrangements for appropriate resources to support the strategy.
- The organisation should put in place the policies and procedures to support the counter-fraud and corruption strategy and take action to prevent, detect and investigate fraud.

44. The Code is voluntary but, where bodies are required to report on the adequacy of their counter-fraud and anti-corruption arrangements as part of the annual governance statement, CIPFA expects that the principles would be used to support this assessment and conclusion.

45. Responses to the consultation should be submitted to diana.melville@cipfa.org by 18 July 2014.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Whole of government accounts

Guidance on 2013/14

46. HM Treasury has issued Guidance to the whole of government accounts year ended 31 March 2014 to provide guidance on the 2013/14 whole of government accounts (WGA). WGA is the consolidated financial statements for the whole of the government in the UK. Bodies provide information to the Treasury in an Excel spreadsheet called the data collection tool (DCT). Treasury consolidate all the completed DCTs to prepare WGA using a consolidation system called the *Online system for central accounting and reporting* (OSCAR).

47. A key part of the WGA process is the elimination of transactions and balances between WGA bodies. Recording complete and accurate counter-party identifier (CPID) information is the only way in which transactions and balances between WGA bodies can be identified and eliminated.

48. Bodies are required to report all transaction streams and balances with other WGA bodies. This is a change from previous years where there was a reporting threshold of £1 million. The threshold for agreeing transactions and balances between central government bodies remains at £5 million. Agreement with local authorities is not required but is recommended.

49. Once balances and transactions have been identified, bodies

- enter financial information, and balances and transactions with other WGA bodies, into the DCT, and complete the validation checks
- complete a *Management review checklist*
- arrange for the completed DCT to be uploaded to OSCAR.

50. Auditors are then required to carry out a review of the DCT and report accordingly. Guidance has also been provided on the preparation of the DCTs (see paragraphs 200 and 227) and notes for guidance from the TSU will be provided in due course.

Private finance initiative

Briefing on unitary charges

51. The Scottish Parliament Information Centre has issued Revenue-financed investment: the size of Scotland's PFI and NPD liability to provide an analysis of the scale of unitary charge payments for public finance initiative (PFI) and non-profit distributing (NPD) schemes.

52. PFI and NPD are both forms of public private partnership capital funding which have the following payments

- Under PFI, a unitary charge is paid by the public body from the point at which the contracted facility is available for use. The unitary charge may be reduced in certain circumstances, e.g. if the contracted facility is not fully operational, or if services fail to meet contracted standards.
- In the NPD model, there is a partnership with a private sector provider, who finances, constructs and maintains an asset. The public sector then pays an annual charge over a 25 to 30 year period to the private sector provider from the revenue budget once the asset has been built.

53. Total charges for the 95 PFI and NPD projects that are currently operational amount to £35.3 billion, of which £6.5 billion (18%) had been paid by 2012/13. The level of payments for all PFI and NPD projects over time will peak around 2025/26.

54. PFI projects on average result in unitary charges of 5.4 times the total capital value of the projects, and the figure for NPD projects is 3.9 times the capital value.

55. The Scottish Government still has over 30 NPD projects to become operational with a combined capital value in excess of £1.5 billion.

Publications

The following publication published since TB 2014/1 can be obtained by using the hyperlink.

Audit Scotland

Scotland's public finances - a follow-up audit: Progress in meeting the challenges

56. This follow-up report from Audit Scotland Scotland's public finances - a follow-up audit provides a high-level update on the financial position in the Scottish public sector and on how bodies are meeting the challenges of reduced public spending. Key messages include conclusions that public bodies

- have coped well so far with significant financial challenges but face increasingly difficult choices in reducing spending while maintaining service standards and meeting rising demand
- need to focus more on their priorities when setting budgets, making clearer connections between planned spending and the delivery of outcomes, and the rigorous use of options appraisal. Financial plans generally focus on the short to medium term, and more work is needed to develop and regularly review long-term financial strategies
- should improve the quality of information provided to non-executive directors and councillors to support them in their crucial role of approving budgets and holding people within their organisations to account for how the money is spent and the outcomes achieved.

Self-directed support

57. This report from Audit Scotland Self-directed support examines progress in implementing the self-directed support strategy in social care. Key messages include the following

- There is still a substantial amount of work to do to fully implement the strategy.
- Councils have a lead role and need effective leadership from senior managers and councillors as well as continued support from the Scottish Government.
- Different methods have been adopted of allocating the money spent on social care to support individuals.

Fraud cases

External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2014/1.

Expenditure

58. (1) A health and social care team manager defrauded £5,000 from a council by submitting false claims for financial assistance for clients by authorising claims which were purportedly completed by social workers. Payment of the claims was made from petty cash to the team manager to be passed on to the client. Key features include the following

- The fraud was discovered when an officer responsible for petty cash transactions queried a financial assistance claim with the named social worker and discovered they had not completed the claim and the client had not requested financial assistance.
- The fraud was possible as forms to evidence receipt of the money were either signed by the defaulter rather the client or were not signed at all.
- Senior managers are now carrying out quarterly checks on financial assistance claims. Following a disciplinary investigation, the defaulter has been dismissed.

59. (2) A senior social work practitioner defrauded £19,000 from a council by falsifying client signatures on financial request forms and by submitting duplicate claims for payment. The defaulter also set up tenancy agreements for clients and retained money allocated to help them furnish the property. Key features include the following

- The fraud was discovered when internal audit followed up a claim of financial irregularity in a client's account.
- The fraud was facilitated by weaknesses around the authorisation of payments.
- The matter has been reported to the police and the defaulter resigned.

60. (3) A business owner misappropriated nearly £8,000 from a council by submitting false claims for funding under an employment programme. False wage slips were submitted to the council showing employees had worked in excess of 16 hours each week which was a condition of funding. Key features include the following

- The fraud was discovered after Jobcentre Plus contacted the council to advise that approved employees for the programme had reported that they had only worked a few hours each week for the business.
- The fraud was possible as the business' cash records were not checked to confirm the payments made to employees. In addition, funding was paid when the claims were not properly completed and in cases where the time limit between the approval of the funding and the vacancies being filled was exceeded.
- A number of controls have been put in place following an internal audit investigation. These include the requirement for businesses to re-apply for funding if vacancies are not filled within three months, checks to ensure that the business is operational before payments are made, bank records to be checked for payroll expenditure, and funding payments to be withheld if application forms are incomplete.
- The matter has been reported to the police.

61. (4) An external employer inappropriately claimed £1.1 million of funding from a central government body in respect of the employment costs of individuals who were working under a training programme. The employer claimed payments for individuals who did not meet the eligibility criteria, and for individuals who had not knowingly entered the programme. Key features include the following

- The irregularity was discovered after a whistle-blower contacted the body to advise that a training certificate had been received by an individual who had not participated in the programme.
- The irregularity was facilitated by little ongoing direct communication between the body and the trainees.
- £411,000 has been recovered from the employer in respect of the claims for individuals who had not knowingly entered the programme. However, no recovery is possible in respect of the payments for non-eligible employees due to poor terms and conditions in the contracts which left the body open to claims for individuals who did not meet the eligibility criteria.
- Steps have been taken to improve compliance and contract management arrangements, such as welcome letters being sent to all participants to confirm they are on the programme.

62. (5) An ICT support officer defrauded £74,000 from a council by ordering mobile phones and then selling them to a private recycling company and retaining the cash. Key features include the following

- The fraud was discovered after the phone supplier contacted the council to notify them of the incident.
- The fraud was possible due to a lack of internal controls in place for mobile phones. Specifically there was no reconciliation of the council's account with the phone provider, and the order was able to be placed and the goods received by the same officer.
- The ICT support officer has been dismissed and the case has been referred to the police.

Income

63. (1) A catering supervisor defrauded £11,000 from a council by not banking school meal income and retaining the cash for personal use. Subsequent day's takings were used to replace the money that was taken from earlier days to ensure the amounts banked matched the income recorded. However, this meant that the bank lodgements were always late. Key features include the following

- The fraud was identified following an internal audit of bank reconciliations.
- The fraud was facilitated by finance officers who prepared the bank reconciliations failing to identify that a pattern of outstanding lodgements is an indicator of fraud.
- Finance officers preparing the bank reconciliations have been alerted to the need to follow up a pattern of late bank lodgements. The money has been recovered and the incident reported to the police.

64. (2) A clerical assistant defrauded £16,000 from a school fund account. The defaulter failed to bank cash collected from pupils for a school trip, misappropriated funding for ring-fenced projects, and issued fraudulent cheques. Key features include the following

- The fraud was only discovered when it was found there was insufficient money in the accounts to pay for the trip and fund the projects.
- The fraud was facilitated by a lack of monitoring of the school fund and a failure to follow the council's procedures for the management of the funds. In particular, the head teacher did not ensure that regular bank reconciliations were carried out or review documentation to verify the balance held.
- The matter has been reported to the police and the defaulter suspended while internal disciplinary investigations are carried out.

Equipment and stores

65. A labourer/driver misappropriated scrap metal worth £12,000 by failing to deposit the scrap at council stores. Key features include the following

- The fraud was facilitated as the defaulter was not required to obtain counter-signatures when depositing scrap at the council's stores and was allowed by a supervisor to deviate from the expected routes, which provided the opportunity to deposit scrap at a relative's house.
- The theft was discovered after the stores manager noted that counter-signatures had not been obtained, and an investigation was carried out
- Improvements have been made to existing controls, including introducing the weighing of scrap metal at transfer points. Supervisors have also been reminded to effectively challenge deviations from routes and to monitor patterns over time.
- Disciplinary action is being taken against the defaulter and, for the failure to robustly challenge the route deviations, the supervisor.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the note for guidance referred to at paragraph 5 when reporting the audit of 2013/14 financial statements?			

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance notes have been published by the TSU since TB 2014/1. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Guidance on the certification of approved local authority 2013/14 grant claims and returns

66. The TSU has published Grant note GN/GEN/14 General guidance on the certification of approved local authority grant claims and returns to provide general guidance to auditors on the certification of approved 2013/14 grant claims and other returns submitted to grant-paying bodies by local authorities.

67. The certification of grant claims and other returns is an engagement, carried out under the overall audit appointment, to provide reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions. The list of grant claims and other returns which external auditors are required to certify in 2013/14 under their audit appointment is provided at Appendix 1 to the grant note.

68. The TSU also separately publishes a grant note on each significant approved claim to provide auditors with specific guidance on certifying that claim (see paragraph 71 to 87).

69. In summary, appointed external auditors are required to

- examine the claim or return and related accounts and records of the authority in accordance with the general grant note and the claim-specific grant note
- direct work to those matters that, in the auditor's view, significantly affect the claim or return
- plan and complete their work in a timely fashion so that deadlines are met
- form a conclusion as to whether the claim or return is fairly stated and in accordance with the relevant terms and conditions
- complete the appointed auditor's certificate, qualified as necessary, in accordance with the guidance in the general grant note and submit it to the grant-paying body.

70. Auditors should use GN/GEN/14 when examining and reporting on 2013/14 grant claims.

Guidance on certifying 2013/14 education maintenance claims

71. The TSU has published GN/EMA/14 to provide guidance on certifying 2013/14 education maintenance allowance (EMA) grant claims. EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in full time education beyond the minimum school leaving age.

72. The year end statement contains an auditor's certificate, but this should not be used. Auditors should instead use the format and wording shown at Appendix 3 to the grant note. The deadline for the submission of the auditor certified claim is 31 July 2014.

73. Auditors should use GN/EMA/14 when examining and reporting on 2013/14 EMA grant claims.

Guidance on certifying 2013/14 housing benefits subsidy claims

74. The TSU has published GN/HBS/14 to provide guidance on certifying 2013/14 housing benefit (HB) subsidy claims. This is a scheme by which local authorities claim funding from the DWP towards the cost of paying HB in their local areas.

75. It is a condition of the DWP that external auditors in Scotland should use the testing and reporting approach set out in the Audit Commission's HB COUNT approach. This grant note therefore provides guidance on the application of HB COUNT to the certification of subsidy claims of Scottish authorities.

76. Where the testing does not allow agreed amendments to be made, the results should be set out in a covering letter. Appendix 4 provides examples of how the results of testing should be reported to the DWP in covering letters.

77. The auditor's certificate to be used is incorporated in the claim. The certified copy of the claim form should be submitted to the DWP by 30 November 2014. Auditors should send a copy of the certified claim form and their covering letter to the TSU.

78. Auditors should use GN/HBS/14 when examining and reporting on 2013/14 benefits subsidy claims.

Guidance on certifying 2013/14 Bellwin scheme claims

79. The TSU has published GN/BEL/14 to provide guidance on certifying 2013/14 Bellwin scheme claims. This is a scheme to provide special financial assistance to authorities who would otherwise incur an undue financial burden as a result of providing relief and carrying out immediate work resulting from large-scale emergencies.

80. The claim form contains an external auditor's report, but this should not be used. Auditors should instead use the format and wording shown at Appendix 3 to the grant note.

81. Auditors should use GN/BEL/14 when examining and reporting on 2013/14 Bellwin scheme claims.

Guidance on certifying 2013/14 safety camera programme claims

82. The TSU has published GN/FPN/14 to provide guidance on certifying 2013/14 safety camera programme claims. This programme is aimed at reducing the number of road accidents and casualties through the use of speed and red light enforcement cameras.

83. The deadline for the submission of the auditor certified claim is 1 August 2014.

84. Auditors should use GN/FPN/14 when examining and reporting on 2013/14 safety camera programme claims.

Guidance on certifying 2011/12 criminal justice social work services returns

85. The TSU has published GN/CJS/14 to provide guidance on certifying 2013/14 criminal justice social work services returns. This is a scheme to fund local authority expenditure on the provision, management and administration of criminal justice social work services.

86. Auditors should use the format and wording for their certificate shown at Appendix 3 to the grant note. The deadline for the submission of the certified claim is 30 September 2014.

87. Auditors should use GN/CJS/14 when examining and reporting on 2013/14 criminal justice social work services returns.

Guidance on emerging issues

The following article provides guidance from the TSU on emerging issues

Local schemes of financial assistance to HRA tenants

88. Technical bulletin 2013/4 (paragraph 62) provided auditors with guidance where local authorities are planning on setting up local schemes to provide financial assistance to their housing revenue account (HRA) tenants who are unable to pay their rent as a result of welfare reform changes to housing benefits.

89. The guidance advised that authorities could debit the cost of the scheme to the HRA if they obtained consent from the Scottish Ministers under paragraph 3(g) Schedule 15 of the *Housing (Scotland) Act 1987*. The Scottish Government has asked the TSU to clarify that the

Scottish Ministers, in giving such consent, do not have power to exceed the limit on discretionary housing payments (DHP) imposed by the UK Government.

Voting rights of committee members

90. The TSU has recently identified that the provisions of section 14 of the *Local Government and Housing Act 1989* has not been commenced. Auditors should note that the impact of the non-commencement includes the following

- There is nothing to prevent a member of a committee appointed by a local authority under section 57 of the *Local Government (Scotland) Act 1973*, who is not a member of that authority, from being a voting member of that committee (as section 14(1) of the 1989 Act is not in force).
- Section 57(3) of the 1973 Act, which requires at least two-thirds of committee members to be members of the authority remains in force (as section 14(8), which would have removed that requirement, is not in force).

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

2013/14 guidance on accounting for landfill sites

91. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued Interim guidance on asset decommissioning obligations for 2013/14 - exposure draft to provide guidance on accounting for asset decommissioning obligations, including landfill sites, in 2013/14.

92. The exposure draft follows the earlier consultation paper (see technical bulletin 2013/4 - paragraph 70) and provides revised guidance as a result of comments received during the consultation period. The guidance is described as interim as CIPFA is undertaking a review of this area and is expected to provide guidance for 2014/15.

93. Asset decommissioning obligations refer to the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located. This is required by *IAS 16 Property, plant and equipment* to be included in the historical cost of the asset when the criteria for recognising a provision set out in *IAS 37 Provisions, contingent liabilities and contingent assets* are met.

94. Where a provision requires to be recognised, a key initial task is to establish the events that trigger the obligation and the estimated cost of the obligation for each trigger event. In relation to landfill sites, consideration is required in respect of the extent of decommissioning costs incurred when the site is initially developed as well as further costs that may arise as the site is utilised.

95. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. There may be a level of volatility in the provision required due to technological advancement, regulatory change or other factors affecting the expected costs, and consequent amendment of the asset's historical cost.

96. The guidance advises that authorities should account for an increase in the provision by

- reducing the balance on the revaluation reserve to the extent of any credit balance existing for the asset, with this change reflected in other comprehensive income and expenditure
- thereafter treating the increase as capital expenditure and immediately undertake an impairment review.

97. Any decreases in the provision that is credited to the comprehensive income and expenditure statement (and therefore credited to the general fund) should be reversed out to the capital adjustment account.

98. The provision requires to be discounted to present value. The increase in the provision due to the passage of time is required to be recognised as an interest charge in the surplus or deficit on the provision of services. This interest charge each year is a charge to the general fund as it cannot be capitalised and there is no basis for reversing it in the movement in reserves statement

99. The earlier consultation paper sought views on the impact on the capital financing requirement (CFR). The guidance recommends that the capital element of the provision should be included in the CFR which enables a loans fund advance to be made. The CFR reflects the underlying need for capital funding, but the increase does not mean authorities are required to borrow at that point.

100. Where a loans fund advance is used, it is expected that the period for the repayment of the advance will be related to the remaining useful life of the set (i.e. related to the future period of service provided by the asset). If the asset is near the end of its useful life, the Scottish Government may agree to a longer repayment period.

101. Any subsequent increases or decreases which affect the historical cost of the asset should be reflected by amendments to the balance of any associated loans fund advance. The guidance anticipates that authorities will manage their cash position over the period of the advance repayment to ensure that cash is available to settle the obligation. LASAAC has asked authorities to quantify the expected impact of following the guidance.

102. The consultation paper also asked for views on cases where the recognition point for the provision is part way through the asset's useful life. The guidance states that this does not prevent the capital element of the provision from being treated as capital expenditure. Where a prior year adjustment is required, the full decommissioning costs (excluding the interest element) should be treated as capital expenditure.

103. Auditors should confirm that their authorities pay this guidance due regard when accounting for landfill sites in 2013/14.

New guidance manual on capital accounting

104. CIPFA has issued a new *Local authority capital accounting - a reference manual for practitioners* to provide guidance on local authority capital accounting. The manual focuses on the practical application of the accounting theory set out in the *Code of practice for local authority accounting in the UK* (the Code).

105. The first part of the manual is a reference section organised by topic which is based on the most frequently asked questions on capital accounting received by CIPFA. For example, one chapter considers whether expenditure incurred in the purchase or creation of an asset can be treated as capital, and states that

- all expenditure should be regarded as revenue unless there is case that it meets the capitalisation criteria set out in the Code
- authorities need to assess each item of expenditure individually with reference to the Code and other available guidance
- the key considerations are whether there is a non-current asset to which the expenditure relates and, if so, whether the specific item of expenditure should be recognised as part of the cost of that asset.

106. In practice, rather than test each potential item of expenditure against the criteria, many authorities develop internal guidance which helps officers determine whether a proposed item of work can be capitalised. The guidance should consider the type of work carried out and the various contexts within which the expenditure could occur (e.g. own asset, leased asset, an asset not in use). Officers should be trained to recognise the key situations that might affect the accounting implications.

107. The costs of employees can be capitalised when their activities have contributed directly to bringing an asset to a location and a condition so that it is capable of operating as intended. Recharges may be capitalised only if they can be traced back to activity on the asset, so general overhead costs cannot be capitalised. A useful rule of thumb is that if there is not a more specific method of allocating costs than a blanket apportionment, they are not likely to be capital. However, for external staff, it is acceptable to capitalise the entire price of the services rendered, which can include items that are not capitalised for internal staff.

108. Where a policy of capitalising borrowing costs is adopted, the Code requires those borrowing costs that are directly attributable to the acquisition, construction or production of an asset to form part of the cost of that asset. The manual states that

- authorities should formulate a policy of what will be viewed as a qualifying asset, and the borrowing costs that are to be capitalised
- the policy that must be applied consistently to all qualifying assets
- the choice to capitalise borrowing costs is not available for assets initially recognised at fair value, e.g. service concession assets or assets held on a finance lease.

- as authorities can only capitalise the costs of borrowing during the period in which it is an asset under construction, it is essential that authorities can clearly identify the point when an asset becomes operational.

109. Part 2 of the manual contains fictional stories about two assets over the period of their lives. The first shows events happening to a building over an authority's eight year ownership, while the second sets out the treatment of leased vehicles. Part 3 provides a glossary of accounting terms used in the manual.

110. The manual is available to inhouse auditors from Audit Scotland's *Technical reference library.* Licencing restrictions prevent it being made available to the firms.

Bulletin on 2013/14 accounts

111. CIPFA has issued LAAP bulletin 98 Closure of the 2013/14 accounts and related matters to provide further guidance and clarification on the 2013/14 financial statements. It includes guidance on the following areas

- property, plant and equipment components (see paragraph 112)
- accounting for the *Scottish welfare fund* (see paragraph 115)
- council tax reduction scheme (see paragraph 117).

Property, plant and equipment components

112. The bulletin covers some areas of difficulty when accounting for significant components of property, plant and equipment. When establishing whether a new replacement component is significant and requires separate recognition, the assessment of the cost of the new component against the overall cost of an asset (including the new component) should be made as at the same date. This entails either

- estimating the current build cost of the asset and comparing it with the cost of the new component; or
- discounting the cost of the new component back to the date when the asset was initially recognised and comparing it with the original cost of the asset.

113. There is a risk that the cost of a new component does not match the increase in the carrying value of an asset measured at fair value. There is no specific requirement in the Code to confirm whether this is the case by obtaining a new valuation, other than the general requirement that carrying amounts in the balance sheet should be materially correct. However, where there are reasonable grounds for believing that a new component has not proportionately increased the carrying value of the asset, authorities should discuss with their property professionals whether a formal revaluation is required.

114. Where it is judged that a revaluation is required, the asset’s carrying amount should be reduced and the decrease charged firstly to the revaluation reserve and then to the relevant service in the comprehensive income and expenditure statement as a revaluation loss.

Accounting for the Scottish welfare fund

115. The *Scottish welfare fund* (SWF) was established as part of the reform of the welfare system and relates to community care grants and crisis grants. SWF funding from the Scottish Government is general revenue grant and should therefore be included in the comprehensive income and expenditure statement under 'Taxation and non-specific grant income and expenditure'.

116. The service expenditure analysis in the *Service reporting code of practice* does not specifically identify a service classification for SWF expenditure. The bulletin recommends that

- community care grant should be charged to the social work service
- crisis grant should be charged to economic development as grants to assist individuals.

Council tax reduction scheme

117. The required disclosure of the calculation of the council tax charge should reflect the impact of the *Council tax reduction scheme* (CTRS), as it does for other discounts.

118. Additional general revenue grant received as a result of the reduction in aggregate council tax income because of the CTRS should be included in the comprehensive income and expenditure statement under 'Taxation and non-specific grant income and expenditure'. It should not therefore be included in the council tax income account.

Auditor action

119. Auditors should confirm that authorities are aware of this guidance and are paying it due regard when preparing the 2013/14 financial statements.

Technical alert on frequency of asset valuations

120. CIPFA has issued Technical alert - Frequency of valuations for property, plant and equipment to clarify the impact of changes to the 2013/14 Code in respect of the frequency of valuations for property, plant and equipment (see technical bulletin 2013/2 - paragraph 79). The alert is in response to uncertainty about the requirements of the Code in relation to changes in wording introduced to paragraph 4.1.2.35.

121. The most significant change to the wording of the paragraph is that revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period. This follows the principle applicable to any other balance sheet transaction (i.e. that the measurement should be materially accurate). The Code does not stipulate that valuations are required on an annual basis.

122. Paragraph 4.1.2.35 also requires that a class of assets may be revalued on a rolling basis provided that it is completed in a short period and revaluations are kept up to date. The Code requires that assets should be revalued every five years as a minimum, but must be revalued more regularly where that is insufficient to keep pace with material changes in fair value.

123. The bulletin therefore clarifies that the wording changes have not amended the requirements of the Code.

2014/15 Code

124. The CIPFA/LASAAC Local Authority Code Board has published 2014/15 edition of the Code. The 2014/15 Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2014 (with the exception of *IFRS 13 Fair value measurement* as its adoption remains under discussion). Where required, the Code includes adaptations to apply the standards to the local authority context.

125. Auditors' attention is drawn to the following significant changes to the Code for 2014/15

- Group financial statements (see paragraph 128)
- Complete set of financial statements(see paragraph 139)
- Local government reorganisation(see paragraph 141)
- Statement on the system of internal financial control for pension funds (see paragraph 144).

126. In addition, Appendix D has been added to set out the reporting requirements agreed for future editions of the Code (see paragraph 145).

127. The 2014/15 Code is available to inhouse auditors from Audit Scotland's *Technical reference library.* Licencing restrictions prevent it being made available to the firms.

Group financial statements

128. Chapter 9 of the Code has been amended to reflect the adoption of the following group accounts standards

- *IFRS 10 Consolidated financial statements*
- *IFRS 11 Joint arrangements*
- *IFRS 12 Disclosure of interests in other entities*
- *IAS 28 Investments in associates and joint ventures (as amended).*

129. The standards apply when an authority has an interest in another entity. This refers to an involvement that exposes the authority to variability of returns from the performance of the other entity. The involvement includes holding equity as well as the provision of funding, liquidity support, credit enhancement and guarantees.

130. Authorities are required to determine whether they control the entity in which they have an interest. An authority controls an entity if it has

- power over the entity, i.e. existing rights that give it the current ability to direct the activities that significantly affect the returns, even if the rights have yet to be exercised. Power may be obtained from voting rights or from contractual arrangements

- exposure, or rights, to variable returns from its involvement with the entity, i.e. the returns have the potential to vary as a result of the entity's performance. Examples of returns included dividends, residual interests in the investee's assets on liquidation, and other non-financial benefits such as service potential generated by the entity on behalf of an authority
- the ability to use its power over the entity to affect the amount of the returns.

131. Determination of control may also be assisted by considering the purpose and design of the entity and how decisions about the relevant activities are made.

132. IFRS 10 introduces the concept of a structured entity which is an entity that has been designed so that voting rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements. The structured entity may have also been designed to pass on exposure of risks or rewards of the authority. Other indicators of a structured entity relationship include

- the authority having involvement in the design of the entity and the transaction terms and features of the involvement give rights to the authority that are sufficient to give it power over the entity
- there are contractual arrangements in place that involve activities that are closely related to the entity, and these activities are, in substance, an integral part of the entity's overall activities
- the entity being designed so that the direction of its activities and its returns are predetermined unless particular circumstances arise or events occur.

133. When an authority with decision-making rights assesses whether it controls an entity, it should determine whether it is a principal or an agent. An authority that is an agent does not control an entity when it exercises decision-making rights delegated to it.

134. If control exists, but it is determined that an authority does not control an entity by itself, then a joint arrangement under IFRS 11 may exist. A party to a joint arrangement recognises its rights and obligations arising from the arrangement. Accounting treatment is based on whether the parties to the arrangement have

- rights to assets and obligations for liabilities of the underlying arrangement (a joint operation); or
- only have rights to the net assets of the joint arrangement (a joint venture).

135. Authorities are required to apply the transitional guidance included in *Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance.* For example, if an authority concludes that it should consolidate a business that was not previously consolidated, the authority should measure the assets, liabilities and minority interests on the date of initial application as if that business had been consolidated from the date when the authority obtained control on the basis of IFRS 10.

136. The Code's disclosure requirements based on IFRS 12 are set out at section 9.1.4. The objective of the disclosure requirements is for an authority to disclose information that enables

users of the financial statements to evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its financial position, financial performance and cash flows. To meet that objective, an authority is required to disclose the significant judgements and assumptions it has made in determining the nature of its interest in another entity or arrangement. For example, those made in determining that

- it does not control another entity even though it holds more than half of the voting rights (or it does have control but holds less than half)
- it is an agent or a principal
- it does not have significant influence even though it holds 20% of the voting rights (or does have significant influence even though it holds less than 20%).

137. An authority is required to disclose information that enables users to evaluate the nature of, and changes in, the risks associated with its interests in structured entities. For example authorities are required to disclose

- the terms of any contractual arrangements that could require them to provide financial support to a consolidated structured entity
- the type and amount of financial or other support provided where there was no contractual obligation, and the reasons for providing the support
- any current intentions to provide financial or other support.

138. Authorities are also required to disclose information on the nature of, and risks associated with, its interests in structured entities that are not consolidated within the group financial statements.

Complete set of financial statements

139. Code paragraph 3.4.2.17 has been amended to state that the balance sheet at the beginning of the preceding period (i.e. third balance sheet) should be presented in accordance with paragraphs 40A to D of *IAS 1 Presentation of financial statements.* Requirements of IAS 1 include the following

- Paragraph 40A states that a third balance sheet is required where retrospective restatement has a material effect on the information.
- Paragraph 40D states that where a third balance sheet is presented, it is not necessary to include the related notes.

140. Clarification has been added to paragraph 3.4.2.17 that a complete set of financial statements includes

- statutory statements, e.g. the housing revenue account
- comparative information in respect of the preceding period.

Local government reorganisation

141. Section 2.5 has been amended to reflect recent changes in the FReM in respect of mergers and transfers of functions. Paragraph 2.5.2.1 has been added to define a 'function' as a

transfer of an identifiable service or business operation with an integrated set of activities, staff and recognised assets and/or liabilities that are capable of being conducted and managed to achieve their objectives.

142. The Code states that the combination of authorities, or the transfer of functions between authorities, should be accounted for as either a transfer by absorption or a transfer by merger

- Combinations and transfers have historically been accounted for as a transfer by absorption, taking the date of the combination/transfer as the starting point of the newly combined authority or function.
- Transfers by merger are rare transactions in local government but may occur when legal transfers take place and the local authority consider that the financial statements would be best presented as if the entity had always existed in its newly combined form. The results and cash flows of all of the combining bodies (or functions) should be brought into the financial statements of the combined body from the beginning of the financial year in which the combination occurred. Transfer by merger should not occur for transfers in or out of the local government sector.

143. In addition, some of the disclosure requirements at paragraphs 2.5.4.1 to 2.5.4.5 have been amended, including the following

- A local authority that receives or transfers a function should disclose that the transfer has taken place, including a brief description of the transferred function, the date of the transfer, the name of the transferring body and the effect on the financial statements.
- The authority should apply judgment as to whether the additional disclosure of historical financial performance of the function should be provided, to enable users to understand the operational performance.
- Where transfers by absorption have taken place during the financial year, no comparative information will be required for the previous year and the information reported in the complete set of financial statements will be reported from the date the transfer took place.

Statement on the system of internal financial control for pension funds

144. Code paragraph 6.5.5.2 has been added to clarify that the pension fund financial statements should provide, in addition to the governance compliance statement, either

- a separate statement on the system of internal financial control; or
- additional disclosures, reports or statements as necessary in order to meet the requirements of that statement.

Highways infrastructure assets

145. Appendix D advises that the 2016/17 edition of the Code will adopt the measurement requirements of the *Code of practice on transport infrastructure assets*, and require highways to be measured on a depreciated replacement cost (DRC) basis.

146. The change to the Code will require the establishment of a separate class of assets for transport infrastructure assets, and will require a disaggregation of those assets from the current infrastructure assets classification.

147. The adoption of a DRC basis will represent a change in accounting policy from 1 April 2016. The Code recommends that local authorities use the time until then to establish information collection arrangements to allow them to apply full retrospective restatement, i.e. revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16.

148. The 2015/16 edition of the Code will specify the accounting requirements for the change in accounting policy using the same approach as it does for the requirements in respect of an accounting change that will be required by a new standard that has been issued but not yet adopted.

Auditor action

149. Auditor should confirm that their authorities are making the necessary arrangements to comply with the new requirements in the 2014/15 Code.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Retirement benefits

2013/14 report on actuarial information

150. PricewaterhouseCoopers has prepared a report called *Review of IAS 19 reporting* to provide support to auditors when assessing the actuaries who produce retirement benefits figures under *IAS 19 Employee benefits* as at 31 March 2014.

151. The work carried out for the report involved assessing the competence and objectivity of, and assumptions and approach adopted by, the relevant actuaries. It found that actuaries signing-off the calculation of the figures are appropriately qualified, and the actuarial firms are experienced and well-reputed. There are no known circumstances which would impair their objectivity to produce the figures.

152. The main findings in respect of the assumptions are as follows

- The actuarial assumptions proposed by the actuaries are considered to be reasonable in most cases. However, the report recommends further investigation where an employer has requested different assumptions than those proposed by the actuary.
- Each actuary has taken a reasonable approach to the most material assumptions for each employer.

153. However, there is concern that accurate cash flows and details of significant events may not always be communicated to the actuaries. The report recommends that auditors consider

extra tests on the cash flow data provided by employers, and satisfy themselves that any special events that they are aware of have been communicated to the actuaries.

154. Most actuaries follow a process of requesting redundancy and exit data in advance of the year end to allow more time for the calculations and reporting. This approach is reasonable provided there is a procedure to check for significant movements or employer decisions occurring in the final months of the year. If auditors are aware of material volumes of redundancies, particularly in the last few months, they should ensure that details of these have been passed onto the relevant actuary.

155. It should be noted that the report does not cover

- the precise scope of the actuary's work as this is specific to each authority . Auditors will need to consider the instructions issued locally by admitted bodies, whether local issues have been covered adequately by those instructions and what additional audit procedures they will need to undertake
- accounting policies or any disclosures.

156. Auditors should use this report as evidence when assessing their authorities' retirement benefit information provided by actuaries in respect of 2013/14.

Non-domestic rates

Guidance on TIF schemes

157. The Scottish Government has issued Finance circular 4/2014 Pilot tax incremental financing projects to set out the arrangements for the repayment of *Tax incremental financing* (TIF) debt from TIF revenue. TIF revenue is the incremental income which is equal to the amount by which the collected non domestic rate (NDR) exceeds the collectable amount in any year.

158. Capital expenditure incurred on the infrastructure associated with a TIF project requires to be financed, and it is expected that the main source of finance will be borrowing. TIF debt is the value of debt which is to be funded from TIF revenue. It is to be calculated on the basis that the rate of interest is fixed for the life of the loan and interest is payable at either yearly or half-yearly intervals. The period of each loan will be aligned to the requirement to repay the loan within the 25 year TIF period, and will reflect the timing of expenditure within that period.

159. For the purposes of calculating the interest on the TIF debt, authorities should apply the relevant interest rate, which is the lower of

- the authority's loans fund pool interest rate for the financial year in which the borrowing occurs
- the average of the Public Works Loan Board interest rate across the financial year in which the borrowing occurs.

160. Each TIF drawdown should be calculated as repayable by either

- annuity or equal repayments where there are fixed yearly or half yearly payments to include principal and interest; or

- equal instalments of principal where there are yearly or half-yearly instalments of principal together with interest on the balance outstanding at the time.

161. The TIF debt which may be met from TIF revenue is equal to the sum of the repayments for each TIF drawdown calculated for each financial year (i.e. the sum of the future principal and interest payments).

162. The final cost of TIF debt (repayment and interest) for the 25 year period will be fixed in the financial year where the final TIF loan is drawn down. Thereafter, there will be no recalculation of interest costs.

163. Each financial year, the TIF debt will be written down by the amount of TIF revenue recognised. This will continue until either

- the TIF debt is fully paid giving rise to a requirement to pass to the Scottish Government 50% of the TIF revenue; or
- the 25 year TIF period is complete. Any TIF debt remaining at the end of that period represents a local authority contribution to the project.

164. The calculation of TIF debt and the repayment is a stand-alone exercise. It is a memorandum account only and does not require any accounting entries. Authorities should continue to manage external borrowing in accordance with their treasury management strategy. There is no requirement for councils to enter into external borrowing arrangements which mirror the TIF debt borrowing calculations.

165. In addition to TIF revenue, income to a TIF project may include a developer contribution to the capital cost. By applying these contributions to the project the amount which is required to be funded from borrowing will reduce. The TIF debt calculation should therefore be based on the cost to be met from borrowing after applying the capital contribution.

166. Other examples of an income stream from the project may include car park income or other fees which will be received by the local authority. This other income is available to fund borrowing costs, and should be reflected in the repayment of the TIF debt.

167. The guidance also considers the associated loans fund advances and repayments. TIF loans fund advances and their repayment should be treated the same as other loan fund advances. The value of each loan fund advance should mirror the value of each advance included in the calculation of TIF debt, and the repayment periods should be the same as those used for the calculation of TIF debt.

168. It is unlikely that the profile of debt repayments will exactly match the receipt profile of TIF revenue. In the early years, it is likely that TIF revenue will be insufficient to fund the debt costs in full and authorities will need to fund any shortfall. In later years, TIF revenue may exceed the debt repayment value, but authorities are not required to make an additional repayment of debt.

Benefits

Removal of HB from EEA jobseekers

169. The Department for Work and Pensions (DWP) has issued HB circular A6/2014 to provide details of amendments made by The Housing Benefit (Habitual Residence) Amendment Regulations 2014 to the definition of 'person from abroad' contained in *The Housing Benefit Regulations 2006*.

170. Under the 2006 regulations, a person from abroad is not entitled to HB. However, a person in receipt of an income-based jobseeker's allowance (JSA(IB)) is not treated as a person from abroad. The amendment regulations remove that exception so that a person in receipt of JSA(IB), and whose only right to reside in the UK is due to their receipt of that benefit, is included in the definition of 'a person from abroad'. The effect is to remove access to HB for jobseekers from the European Economic Area (EEA) who make a new claim on or after 1 April 2014.

171. EEA jobseekers who are entitled to HB and JSA(IB) on 31 March 2014 will be protected until they have a break in either claim. If their JSA(IB) ends because they have gained genuine and effective employment they will be able to access in-work HB.

172. Claimants receiving in-work HB beyond 1 April will continue to be able to access HB if they become entitled to JSA(IB) on or after that date, provided they retain their worker status.

New specified accommodation for HB

173. The DWP has issued HB circular A8/2014 to provide details of The Housing Benefit and Universal Credit (Supported Accommodation)(Amendment) Regulations 2014 which amend *The Universal Credit Regulations 2013* and specify the types of accommodation for which HB will continue to be payable.

174. Specified accommodation continues to include exempt accommodation which is a resettlement place or accommodation provided by a housing association, registered charity or voluntary organisation where the landlord, or person acting on their behalf, provides the claimant with care, support or supervision. Specified accommodation has been extended to also include cases where the care or support is not provided by the landlord or person acting on their behalf.

175. Specified accommodation also includes the following additional categories

- refuges for victims of domestic violence where these are managed by local authorities, housing associations, registered charities or voluntary organisations
- hostel accommodation provided by local authorities where care, support or supervision is also provided.

176. The regulations also amend the 2006 regulations to exempt HB in respect of specified accommodation from the benefit cap.

2014/15 administration funding

177. The DWP has issued HB circular S2/2014 Additional funding to meet the costs of implementing welfare reform changes in 2014/15 to announce additional funding to support the costs of implementing welfare reform changes in 2014/15.

178. The funding is intended to meet new burdens incurred by local authorities as a result of the ongoing implementation of changes to local housing allowance (LHA), the removal of the spare room subsidy (RSRS) and the benefit cap.

Guidance on temporary accommodation

179. The DWP has issued HB circular A9/2014 Temporary accommodation in housing benefit and universal credit to provide clarification of the treatment of temporary accommodation in HB and universal credit (UC).

180. All HB temporary accommodation subsidy claims will continue on current rules until the claimant migrates to UC. This means that

- for most cases, the level of rent is 90% of the appropriate January 2011 LHA rate for the property plus £60
- the level of rent for properties from local authorities' own housing stock continues to be subject to the current rent rebate rules
- claimants in local authority owned or registered housing association owned temporary accommodation are subject to the RSRS
- all temporary accommodation claimants' HB is included in benefit cap calculations.

181. Claimants in receipt of UC who become homeless and are placed in temporary accommodation will receive a housing rent element of UC based on the lower of the LHA rate for the household size or the actual rent. The rent will be paid directly to the claimant. The benefit cap and the shared accommodation rate will apply, but the RSRS will not. Discretionary housing payments (DHP) are not taken into account when calculating the benefit cap.

182. A flat rate contribution-to-costs-fee of approximately £45 per week will be paid for temporary accommodation cases in UC. These payments will be outside HB and UC and will require new enabling legislation.

Discretionary housing payments

183. The DWP has also issued HB circular A10/2014 Discretionary housing payment guidance 2014 to advise of revised DHP guidance for 2014/15. The guidance is intended to assist with the implementation and management of local DHP schemes. It has been revised to take account of the increased funding that has been made available and the requirement to record the intended purpose of the payments.

184. In addition to the annual DHP claim form and accounting returns, local authorities are required to provide supplementary data based on the total amount of DHP paid to claimants. Authorities should record if a DHP claimant has been affected by

- the benefit cap
- RSRS in the social rented sector
- LHA restrictions
- a combination of reforms.

185. In addition, the intended outcome from each award should be recorded, e.g. to help the claimant move to alternative accommodation, or to provide assistance with short-term or ongoing rental costs.

Single Fraud Investigation Service

186. The DWP has issued a letter on the implementation arrangements for the Single Fraud Investigation Service (SFIS).

187. The letter provides details of each local authority's implementation date along with the key contact from the DWP implementation team, and information on transferring local authority officers to the SFIS.

Actions to reduce qualifications of subsidy claims

188. The DWP has issued HB circular S4/2014 Qualification of local authority housing benefit subsidy claims to provide details of the planned actions to reduce the number of subsidy claims where the auditor's conclusion is qualified.

189. As a result, the DWP will be contacting all local authorities that have had the conclusion on their subsidy claims qualified by auditors to obtain information on the actions taken to address the issues raised.

190. The DWP will visit authorities that have had recurrent qualification issues to discuss their plans and gain assurance that robust action is being taken.

Treasury management

Consent to borrow to on-lend to RSLs

191. The Scottish Government has issued Finance circular 5/2014 Council borrowing to on-lend to registered social landlords which sets out a scheme to allow local authorities to borrow to on-lend to registered social landlords (RSLs).

192. RSLs are currently facing specific difficulties in securing private loan finance, and the policy intent is to facilitate the delivery of new affordable homes by RSLs with local authority on-lending being used for projects which have stalled or have not been able to proceed in a timely manner, e.g. due to a private lender requirement for the RSL to agree to the material re-negotiation of old debt.

193. Authorities have statutory powers to provide financial assistance to RSLs for housing purposes but do not have any powers to borrow to fund that financial assistance. Scottish Ministers are providing consent under the scheme to allow a local authority to borrow provided conditions specified in the circular are satisfied.

194. Loans made to RSLs (including RSL subsidiaries) under this scheme should be treated as an investment and funded from borrowing. The capital control framework requires the transaction to be recognised as capital in nature, which increases the CFR and requires an advance from the loans fund. Any funding from reserves is outwith the scheme, but is also an investment. Separate limits require to be placed on loans funded from borrowing and those funded from reserves.

195. Local authorities are required to produce a business case which sets out the proposal to borrow to on-lend, and should demonstrate compliance with the scheme's conditions. The business case forms part of the proposal which requires to be approved by elected members at a meeting. It should

- explain why a project has stalled
- demonstrate that 'but for' this support, it is unlikely that affordable housing could be delivered in a timely manner
- set out the specific reasons why the authority supports lending to the RSL
- detail the recipient of the loan, the maximum value of the loan facility, the number and location of the housing units and their target completion date
- consider the risks of providing the loans, together with details of how these risks are to be monitored, mitigated and managed
- contain details of the authority's exit strategy.

196. The interest rate of any loan should be at least at a market rate and the business case should explain the rationale for the rate proposed. If an authority is proposing less than a market rate, there is a requirement to obtain state aid advice, and the business case should include a state aid assessment and details of the advice received.

197. The rationale for the type of loan offered and the repayment terms should be included in the business case. The maximum lending period permitted under the scheme is 15 years, and new loans may not be issued to re-finance those that have matured. The loans fund advance is required to mirror the type of loan, and the repayment period should be equal to the repayment period of the loan.

Pension funds

New local government pension scheme

198. The Local Government Pension Scheme (Scotland) Regulations 2014 introduce a new local government pension scheme from 1 April 2015 to replace the existing 2008 scheme. In contrast to the 2008 scheme, which was a final salary pension scheme, the new scheme provides for members to accrue pension on a career average revalued earnings basis.

199. Other key features of the new scheme include

- a change in the rate at which benefit is accrued from 1/60th to 1/49th
- pensions for partners who cohabit and civil partners which are equal to those benefits for married couples
- allowing employees eligible for membership and scheme members to elect to pay 50% of normal contributions, and accrue only 50% of their pension during that time
- aligning the normal pension age with the state pension age.

Whole of government accounts

Guidance on 2013/14 data collection

200. Treasury has issued WGA guidance for local authorities on completing 2013/14 data collection tool to provide guidance on completing the 2013/14 data collection tool (DCT) for WGA. As stated at paragraph 46, the DCT is an Excel workbook-based tool and is intended to provide a standardised process for the efficient collection of information from WGA bodies. The Scottish Government has advised that this guidance (although described as applying only to England) should be followed by Scottish local authorities as there will be no separate guidance for 2013/14.

201. The production of the WGA financial statements is fundamentally a two-step process of

- aggregating the financial statements of the WGA bodies analysed against a standard chart of accounts. The DCT also collects additional data necessary for preparing the disclosure notes
- eliminating the intra-group transactions and balances. Each WGA body has been assigned a unique counterparty identification code (CPID code) which enables related transactions to be matched in an efficient manner.

202. The DCT is password-protected and uses macros to validate data entries and to prevent unauthorised amendments. The validation tests focus on reconciliation of 2012/13 closing balances to 2013/14 opening balances, internal inconsistencies, and integrity and completeness checks.

203. WGA bodies are required to submit a cycle 1 DCT (before review by auditors) and a cycle 2 DCT (after auditors' review)

204. Bodies are required to provide by 23 July 2014

- a macro-locked cycle 1 DCT and a signed *Management review checklist* to their auditor
- a macro-locked cycle 1 DCT and a copy of the unaudited financial statements to the Scottish Government.

205. The cycle 2 DCT is the cycle 1 version updated for audit adjustments and CPID corrections. Bodies are required to submit to the Scottish Government the locked cycle 2 DCT and a copy of the audited financial statements by 3 October 2014.

206. A note for guidance on the review by auditors of the 2013/14 DCTs will be provided in due course.

Finance

2014/15 redetermination

207. The Scottish Government has issued Finance circular 2/2014 Local Government Finance (Scotland) Amendment Order 2014 etc. to provide a summary of the figures in The Local Government Finance (Scotland) Amendment Order 2014.

208. The order redetermined the amount of the general revenue grant payable and NDR income distributed to each local authority for 2014/15. It also redetermined the amount of the general revenue grant payable to each authority in respect of 2013/14.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Local government

209. The Local Government Finance (Scotland) Amendment Order 2014 (SSI 74) came into force on 19 March 2014 (see paragraph 207).

Housing benefit

210. The Housing Benefit (Habitual Residence) Amendment Regulations 2014 (SI 539) came into force on 1 April 2014 (see paragraph 169).

211. The Housing Benefit and Universal Credit (Supported Accommodation)(Amendment) Regulations 2014 (SI 771) came into force on 10 April 2014 with the remainder coming into force on 3 November 2014 (see paragraph 173).

Public service pensions

212. The Local Government Pension Scheme (Scotland) Regulations 2014 (SSI 164) come into force on 1 April 2015 (see paragraph 198).

Publications

The following publications published since TB 2014/1 can be obtained by using the hyperlinks.

Audit Scotland

An overview of local government in Scotland 2014

213. This publication from Audit Scotland An overview of local government in Scotland 2014 is based on the local government audit work in 2013 and provides a high-level, independent view on the progress councils are making in managing their finances and in achieving best value. Key messages include the following

- Achieving best value requires good information about the cost and performance of current services and robust analysis of the options and the related risks associated with alternative ways of delivering services.
- Councillors should assure themselves that the officer responsible for the council's finances retains appropriate access and influence within management structures.
- The total level of reserves has increased but the level of non-earmarked reserves has fallen, with councils predicting future funding gaps.
- Achieving more from community planning partnership working requires strong shared leadership, more effective governance and making the most of the combined public sector resources in the area.
- There is increased evidence of political tensions and instability which is leading to strained working relationships.

Options appraisal: are you getting it right?

214. This publication from Audit Scotland Options appraisal: are you getting it right? highlights the importance of councils using rigorous options appraisals to deliver efficient and effective services to local communities and show they are achieving best value. Key messages include the following

- Councils need to consider a wide range of options when considering what services to provide and how to deliver them. They can do this by critically assessing the current arrangements and by looking at how services are provided by other councils and other organisations.
- Councillors and officers need to be open to considering a broad range of options for delivering services. A robust options appraisal helps councils make important decisions and provides assurance that all the relevant issues have been considered.
- It is vital that councils clearly define the objectives of any options appraisal process. When deciding on the objectives, a council needs to ensure that the possible outcomes of any options appraisal are consistent with its strategic policy objectives.

- Options appraisal needs to be resourced properly to ensure that it works well. The process needs to be proportionate to the significance of the decision to be made.

Procurement in councils

215. This publication from Audit Scotland Procurement in councils assesses whether councils are efficiently and effectively managing how they procure goods and services. Key messages include the following

- Councils spent over half of the total public sector procurement spend in Scotland in 2012/13, mostly on social care and construction.
- Since 2006, initiatives by the Scottish Government and Scotland Excel have led to significant changes in councils' procurement practices.
- Councils are systematically using procurement spending to support local economic development, and have recently begun to make community benefits such as apprenticeships and environmental improvements an integral part of contracts.
- Councils' spending through collaborative contracts set up by the Scottish Government and Scotland Excel has increased by over 80% over the past three years, but this accounts for only 9.3% of their total procurement spend.
- Councils and Scotland Excel have used the *Procurement capability assessment* process to improve procurement practice. Councils that invest in qualified improvement staff can both improve service quality and achieve financial savings.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the grant notes referred to at paragraphs 66 to 87 when examining and reporting on 2013/14 grant claims?			
2 Have you carried out the action recommended at paragraph 103 in respect of accounting for landfill sites?			
3 Have you carried out the action recommended at paragraph 119 in respect of the 2013/14 financial statements.			
4 Have you carried out the action recommended at paragraph 149 in respect of the 2014/15 Code?			

	Yes/No/N/A	Initials/date	W/P ref
5 Have you carried out the action recommended at paragraph 156 in respect of 2013/14 actuarial information?			

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance on emerging issues

The following article provides guidance from the TSU on an emerging issue.

Summary financial information

216. Paragraph 5.1.7 of the 2013/14 FReM states that a body that wishes to publish a document additional to its annual report and accounts that contains summary financial information should comply with the requirements of section 426 of the *Companies Act 2006*. Section 426 previously referred to the inclusion of a summary financial statement. However, it has been amended by *The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013* to replace references to a summary financial statement with a copy of the strategic report and supplementary material (as explained at paragraph 32).

217. Auditors should confirm that any separate document containing summary financial information (e.g. separate annual report) prepared by their audited bodies complies with the FReM and includes a copy of the strategic report and the required supplementary material. As stated at paragraph 33, there is no requirement for auditors to express an opinion on this matter.

218. However, if a body also chooses to include a summary financial statement in the separate annual report, auditors should continue to express an opinion on the consistency with the full financial statements and management commentary based on the model wording at Appendix

11 of *Note for guidance 2014/8*. As the FReM requires a copy of the strategic report and specified material to be included in the separate annual report, a failure to do so is expected to result in a qualification to that consistency opinion (e.g. 'the summary financial statement is consistent with the full financial statements and management commentary except for the omission of the strategic report').

Accounting developments

The documents referred to in the following article can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library.*

2013/14 guidance on remuneration reports

219. The Cabinet Office has issued EPN 380 Disclosure of salary, pension and compensation information for 2013/14 to provide guidance on the preparation of remuneration reports for 2013/14.

220. Remuneration reports contain information about the pay and pension packages of the senior management team. From 2013/14, the remuneration report must include a single total figure of remuneration. Remuneration disclosures require a table including

- salary in bands of £5,000, including gross, overtime, recruitment and retention allowances, ex-gratia payments and any other taxable allowances
- bonuses for senior management in bands of £5,000, which should relate to the year in which they become payable
- any taxable benefits in kind that are not given to the individual as cash (e.g. a car) to the nearest £100
- from 2013/14 the total value of pension benefits, which should be calculated as the real increase in pension multiplied by 20, plus the real increase in any lump sum, less contributions made by the member. The real increases exclude increases due to inflation or any increase or decrease due to a transfer of pension rights
- the single total figure of remuneration, which should be the sum of the above for each individual.

221. There is also a requirement to disclose the median remuneration of all staff and the ratio between this and the mid-point of the banded remuneration of the highest paid director.

222. The following disclosures are required in respect of pensions

- Accrued pension and lump sum at as at 31 March 2014 disclosed on £5,000 bands, which should be the pension that the individual would receive if that was their last day in service.
- The real increase in pension and lump sum, i.e. the increase after considering inflation.
- The cash equivalent transfer value (CETV) to the nearest £1,000, and the real increase in CETV that is funded by the employer.

223. Bodies should disclose the date of appointment for individuals appointed during the reporting year and the last day of service for those who left. Disclosures should only relate to the period during which they were in a post, but the full year equivalent of the salary should also be disclosed.

224. Disclosure is also required for

- the number of exit packages for all staff by cost band, broken down by the number of compulsory redundancies and the number of other departures agreed. For staff who left under the voluntary terms, the cost to be used must include any top-up to compensation provided by the employer to buy out the actuarial reduction on an individual's pension
- compensation payments made to senior management.

225. An example remuneration report is provided at Annex 13C.

226. Auditors should confirm that audited bodies are aware of the changes to the 2013/14 remuneration report and are taking the necessary steps to comply.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Whole of government accounts

Instructions on 2013/14 data collection

227. Treasury has issued WGA instructions for completing 2013/14 data collection tool on completing the 2013/14 data collection tool (DCT) for WGA. As stated at paragraph 46, the DCT is an Excel workbook-based tool and is intended to provide a standardised process for the efficient collection of information from WGA bodies.

228. A note for guidance on the review by auditors of the 2013/14 DCTs will be provided in due course.

Publications

The following publication published since TB 2014/1 can be obtained by using the hyperlink.

Audit Scotland

Modern apprenticeships

229. This publication from Audit Scotland Modern apprenticeships assesses whether modern apprenticeships provide value for money (VFM). Key messages include the following

- In 2011/12, the Scottish Government introduced an annual target of 25,000 new modern apprenticeship starts, which has been achieved in each of the last two years. It important to continue to monitor the financial sustainability of meeting this target within current budget limits.
- More specific long-term aims and objectives, along with information on their benefits and appropriate outcome measures, would make it easier to assess the extent to which modern apprenticeships provide VFM.
- Administration could be improved, for example, by improving monitoring and quality assurance arrangements to ensure training is delivered to a high standard.

Investment appraisal

Review of VFM assessment process for PFI

230. This publication from the National Audit Office (NAO) Review of VFM assessment process for PFI examines the VFM assessment process for PFI, which combines a quantitative and qualitative approach.

231. The quantitative tool was the financial model used to assess the VFM of using PFI for government projects. It was a cost-effectiveness analysis which compared the estimated cost of using PFI with a ‘public sector comparator’ to help determine the best route. The main findings include

- Quantitative analysis is an essential part of decision-making but project teams over-relied on the model and interpreted it in practice as a pass/fail test, with insufficient weighting given to qualitative judgements.
- The quantitative analysis approaches set out in the *Green book: Appraisal and evaluation in central government* help investment decisions.
- The cost-effectiveness analysis did not evaluate the VFM of PFI compared to government borrowing; to make this evaluation on individual projects would require structural change to the model.

232. The qualitative tool provides a useful checklist to help project teams consider whether PFI will meet the intended outcomes of the project and is a suitable delivery methodology.

Accounting

Guide - understanding central government's accounts

233. This publication from the NAO Guide - understanding central government's accounts is intended to help non-accountants understand central government’s accounts, such as non-executive board members and audit and risk assurance committee members. Although it is focused on the annual reports and accounts of departments, it is also relevant to other central government bodies.

234. Each section also includes suggested challenge questions to help non-executives scrutinise the accounts more effectively.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 217 in respect of summary financial information?			
2 Have you carried out the action recommended at paragraph 226 in respect of 2013/14 remuneration reports?			

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance note has been published by the TSU since TB 2014/1. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Notes for guidance on auditing 2013/14 health financial statements

235. The TSU has published Note for guidance 2014/6(H) Audit of 2013/14 health financial statements to provide auditors with guidance on planning and performing the audit of the 2013/14 health financial statements.

236. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements. The note also provides guidance on auditors' responsibilities to

- audit and express an opinion on the regularity of expenditure and income
- audit and express an opinion on elements of the remuneration report
- express an opinion on the consistency of the operating and financial review with the financial statements
- report on other matters such as the governance statement, consolidation templates, and summary financial information.

237. Auditors should use the note for guidance when performing the audit of the 2013/14 health financial statements.

Accounting developments

The documents referred to in the following articles are available to external auditors from Audit Scotland's *Technical reference library*.

2013/14 accounts update letter

238. The Scottish Government Health and Social Care Directorates (SGHSCD) have issued a letter advising boards of recent changes to the 2013/14 FReM that are not reflected in the health accounts manual, and guidance on other matters, including

- the strategic report
- pension disclosures
- the impact on the governance statement of consolidating endowment funds
- VAT issues.

Strategic report

239. The operating and financial review (OFR) should now comprise a directors' report and a strategic report.

240. The strategic report should include new disclosures on

- social, community and human rights policies
- the strategy and business model
- the number of persons of each gender who were directors, senior managers and employees of the board as at the end of the financial year.

241. Some disclosures previously included under the directors' report, including a note that the accounts have been prepared under an accounts direction and an explanation of the going concern basis, should now be included in the strategic report.

242. The following items previously included elsewhere should also be moved to the strategic report

- A fair review of the body's business and a description of the principal risks and uncertainties faced.
- A brief history of the body and its statutory background.
- An analysis using financial and key performance indicators.
- The main trends and factors likely to affect the future development, performance and position of the body.
- Sustainability reporting requirements.
- Additional explanations of amounts included in the financial statements.

Pension disclosure

243. Revisions to *IAS 19 Employee benefits* require multi-employer defined benefit schemes that are accounted for as defined contribution schemes to disclose an indication of the level of participation of the entity in the plan compared with other participating entities.

244. In order to ensure a consistent approach to this disclosure, boards are advised to obtain the required information from the Scottish Public Pension Agency.

Governance statements

245. The letter also provides a suggested disclosure to include in the governance statement for boards that have consolidated their endowment funds. The disclosure states that the governance statement reflects relevant disclosures in respect of endowment funds.

246. Boards are also advised to obtain an assurance statement from the chair of the endowment subcommittee to support this disclosure.

VAT

247. In addition, the letter provides an update of correspondence with HM Revenue and Customs regarding the VAT status of NHS boards. Some of these developments may have implications for recoverable VAT in 2013/14.

Auditor action

248. Auditors should confirm that their boards have complied with the guidance in this letter in respect of the strategic report.

Guidance on 2013/14 remuneration report

249. Two letters have been issued to provide guidance on the single total remuneration figure to be disclosed in the 2013/14 remuneration report.

250. The NHS Technical Accounting Group (TAG) guidance reflects EPN 380 (see paragraph 219) in respect of the items that should comprise the single total remuneration figure in each column of the remuneration report table, including the pension benefits accrued in the year. A format for this table, and a separate table presenting the more detailed pension information, is included in the letter.

251. The letter also clarifies that elements of remuneration to be included in the calculation of the ratio of the highest paid director to the median pay are total salary, non-consolidated performance related pay, and benefits in kind. It should not include severance payments, employer pension contributions, and the cash equivalent transfer value of pensions.

252. The SGHSCD letter focusses on the pension benefits element of the single total remuneration figure. It explains that the required disclosure is the benefit to the individual of participation in the pension scheme rather than the cost to the employer, and that the TAG guidance is consistent with the approach in both the central government sector and the private sector. The letter also

- provides suggested wording for an explanatory note
- proposes that an additional sub-total for earnings in the year (i.e. excluding pension benefits) be included in the remuneration table
- highlights that if the calculation of pension benefits results in a negative value, it should be expressed as zero.

253. Auditors should confirm that their boards have complied with this guidance.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's Technical reference library.

Statutory instruments

National health service

254. The National Health Service (Optical Charges and Payments)(Scotland) Amendment Regulations 2014 (SSI 61) came into force on 1 April 2014 and amended the principal 1998 optical charges regulations which provide for payments to be made by means of a voucher system.

255. The amendment regulations increase the redemption value of vouchers issued towards the cost of replacing a single contact lens, repairing a frame and for small glasses and special frames.

256. The National Health Service (Charges to Overseas Visitors)(Scotland) Amendment Regulations 2014 (SSI 70) came into force on 1 May 2014 and amended the principal 1989 regulations to extend the categories of visitors exempt from NHS charges to include visitors who are taking part, or involved, in the Commonwealth Games in 2014.

257. The regulations also

- include the treatment of human immunodeficiency virus in the list of diseases for which no charge is to be made
- amend the list of countries with which the United Kingdom has a reciprocal agreement.

258. The Patient Rights (Treatment Time Guarantee) (Scotland) Amendment Regulations 2014 (SSI 93) came into force on 1 April 2014, except regulation 2(5)(a) which comes into force on 1 October 2014, and amend the principal 2012 treatment time guarantee regulations as follows

- Regulation 2(4) sets out periods of time which are to be disregarded when calculating the waiting times, e.g. when the patient has declined an offer of an appointment because they want the treatment to be carried out by a specific practitioner.
- Regulation 2(5) removes certain exceptions to the guarantee, e.g. treatment of spine injuries.

259. The National Health Service (Functions of the Common Service Agency) (Scotland) Amendment Order 2014 (SSI 100) came into force on 19 May 2014 and amended the principal 2008 order to clarify that the functions of the Common Services Agency include

- the national commissioning of clinical services
- making arrangements for immunisation programmes
- providing blood products not required by NHS Scotland to others
- health service teaching, training and research.

260. The National Health Service (Free Prescriptions and Charges for Drugs and Appliances) (Scotland) Amendment Regulations 2014 (SSI 115) came into force on 1 April 2014 and updated the principal regulations so that the charge for a prescription presented on an English form reflects the English rate from that date.

Publications

The following publication published since TB 2014/1 can be obtained by using the hyperlink

Audit Scotland

Accident and emergency: performance update

261. This publication from Audit Scotland Accident and emergency: performance update focuses on the performance of the NHS against the four hour accident and emergency waiting time standard. Key messages include the following

- The performance against the standard has deteriorated since the last report.
- Around a third of patients who are delayed in accident and emergency are waiting because hospital beds are not available.
- The Scottish Government has launched an action plan in response to the deterioration in performance against the standard, but it is too early to comment on its impact.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the note for guidance referred to at paragraph 237 when performing the audit of the 2013/14 health financial statements?			
2 Have you carried out the action recommended at paragraph 248 in respect of the strategic report?			

	Yes/No/N/A	Initials/date	W/P ref
3 Have you carried out the action recommended at paragraph 253 in respect of the remuneration report?			

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance note has been published by the TSU since TB 2014/1. It can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Notes for guidance on auditing 2013/14 further education financial statements

262. The TSU has published Note for guidance 2014/8(FE) Audit of 2013/14 further education financial statements to provide auditors with guidance on planning and performing the audit of the 2013/14 further education financial statements.

263. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2013/14 financial statements. The note also provides guidance on auditors' responsibilities to

- audit and express an opinion on the regularity of expenditure and income
- express an opinion on the consistency of the operating and financial review with the financial statements
- report on other matters such as the governance statement.

264. Auditors should use the note for guidance when performing the audit of the 2013/14 further education financial statements.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

2013/14 accounts direction

265. The Scottish Funding Council (SFC) has provided their accounts direction for colleges from 2013/14. The accounts direction requires colleges to comply with the *2007 Statement of recommended practice: Accounting for further and higher education* (SORP) in preparing their financial statements. Specific mandatory disclosures requirements are set out in Appendix 1 to the direction.

266. The direction requires colleges to include a statement covering the responsibilities of their governing body in relation to corporate governance, and Appendix 2 sets out required corporate governance disclosures.

267. The main change from the previous direction arises from the reclassification of colleges as central government bodies from1 April 2014. The direction requires colleges (other than those incorporated with the University of the Highlands - UHI) to prepare their financial statements with a 31 March year end, and submit the financial statements and audit reports to the SFC by 30 September 2014.

268. In addition, the 2013/14 accounts direction has been amended to disapply the new provisions in the *UK Corporate governance* code that would otherwise require enhanced auditor reporting by specifically referring to the 2010 edition. Auditors should note that this means that changes to international standards on auditing that relate to entities reporting compliance with that code do not apply to colleges (see technical bulletin 2013/2 - paragraph 30).

269. The direction states that colleges should submit hard copies of the signed financial statements to Audit Scotland. However, in line with the *2013/14 Audit planning guidance*, it is auditors' responsibility to make this submission.

Guidance on 2013/14 financial statements

270. The SFC has issued Detailed notes for guidance on completion of the 2013/14 financial statements which are designed to supplement the accounts direction for 2013/14. The guidance covers key disclosures in the financial statements, including model disclosure notes. In certain cases, the additional disclosures are required to reflect the situation in Scotland.

271. The guidance notes remain largely the same as 2012/13, but the main changes are as follows

- The guidance notes clarify that, although the 2013/14 financial statements cover the eight months to 31 March 2014, the comparatives for 2012/13 should cover the full 12 month period.
- The section on SFC funding states that there is no single methodology recommended for calculating the amount of grant-in-aid to be recognised in the eight month period, and

advises colleges to apply an appropriate methodology that provides an acceptable estimate.

- A paragraph has been added to the section on staff costs to advise that there is no requirement for colleges to accrue untaken annual leave in 2013/14, although there is nothing to prevent colleges from choosing to do so.

Guidance for early retirement provision

272. The SFC issued Guidance for early retirement provision spreadsheet completion to advise that the suggested net interest rate for early retirement pension calculations in 2013/14 is unchanged from last year at 2.00%.

273. Colleges may need to apportion the charge for the provision to take account of the eight month financial year to 31 March 2014.

274. Auditors should confirm their colleges have used an appropriate discount rate when calculating their early retirement provision, and have paid due regard to the rate suggested by the SFC.

Further guidance on college reclassification

275. The SFC has issued Communication no 14 to provide clarification on several technical accounting issues arising from the reclassification of colleges as central government bodies.

Arms-length foundations

276. The transfer from colleges to the arms-length foundations should be included above the operating surplus line in the income and expenditure account and should be clearly disclosed.

277. Any outstanding issues in respect of the independence of the board should be addressed as soon as possible and before any funds are dispersed by foundations.

Untaken annual leave accrual

278. As stated at paragraph 271, there is no requirement for colleges to accrue untaken annual leave in 2013/14, but an accrual requires to be recognised in 2015/16 on the introduction of IFRS, including a restatement of 2014/15 comparatives.

279. The effect of the accrual would be taken to the general fund reserve, with the movement between years classified within the resource departmental expenditure limit (DEL).

Tangible fixed assets

280. In line with FReM requirements, it has been decided that asset valuations should be on a depreciated replacement cost basis from 2014/15.

281. The gain or loss on the disposal of an exchequer-funded asset scores in the resource budget. Any profit scoring in resource DEL should be limited to the lower of £20 million or 5% above

the net book value. Treasury may require any additional gain to be retained in capital DEL which requires to be reinvested in the same financial year.

European Regional Development Fund grants

282. Colleges in receipt of European Regional Development Fund (ERDF) grants claim the funding retrospectively. As European funding streams are classified as negative DEL under consolidated budgeting rules, income should be accrued on the basis of eligibility to claim. This requires recognition of income when expenditure is incurred rather than when the cash is received.

Auditor action

283. Auditors should confirm that their colleges are aware of this guidance on reclassification and are taking steps to comply.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

284. The Post-16 Education (Scotland) Act 2013 (Commencement No 3 and Transitory and Savings Provisions) Order 2014 (SSI 79) brings into force certain provisions of the Post-16 Education (Scotland) Act 2013 on 1 May and 1 August 2014, including those concerning the funding and functions of regional strategic bodies and the constitution of regional boards.

285. The Assigned Colleges (Scotland) Order 2014 (SSI) 80 comes into force on 1 May 2014 to

- assign City of Glasgow, Glasgow Clyde and Glasgow Kelvin colleges to the Regional Board for Glasgow Colleges
- make transitional provisions to permit any student appointed as a member of the Regional Board on or before 31 August 2014 to hold office until 31 August 2015.

Section 22 reports

Under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000, the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following reports have been prepared since TB 2014/1 and can be obtained by using the hyperlinks.

The 2012/13 audit of North Glasgow College

286. This report from the Auditor General on the 2012/13 audit of North Glasgow College draws Parliament's attention to weaknesses in governance and decision-making relating to the early departure arrangements for two senior members of college staff.

287. There was a lack of transparency around the process of agreeing the severance arrangements. The college did not retain the evidence needed to provide assurance that the

arrangements were subject to the appropriate scrutiny and approval. As a result it is unclear whether the college's Board of Management considered that the associated costs would provide value for money.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you used the note for guidance referred to at paragraph 264 when performing the audit of the 2013/14 further education financial statements?			
2 Have you carried out the action recommended at paragraph 274 in respect of the early retirement provision?			
3 Have you carried out the action recommended at paragraph 283 in respect of the accounting matters arising from reclassification as central government bodies?			

Contact points

Specific enquiries or requests for further information relating to articles contained in each chapter of this TB should be made to

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July to September

AUDIT SCOTLAND

Prepared by the Technical Services Unit
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Contents

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

It is important that auditors read this technical bulletin promptly so they are familiar with the information and guidance provided. The auditor action checklist section at the end of each chapter should be completed by a senior member of the audit team.

While auditors act independently, and are responsible for their own conclusions and opinions, the TSU has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow TSU guidance. Auditors should advise the TSU promptly if they intend not to follow any guidance on an important issue**.

TBs are available to external auditors from Audit Scotland's *Technical reference library,* and published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

Headlines

The table in this chapter provides brief headlines for the content of this TB, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Audit year	Paragraphs
The International Accounting Standards Board has issued a new standard on financial instruments.	2018/19	1
The Financial Reporting Council has issued reports on • presenting accounting policies • clear and concise reports.	 2013/14 2013/14	 3 6
The Chartered Institute of Public Finance and Accountancy and International Federation of Accountants have issued a new international governance framework.	2013/14	9
Audit Scotland has published a report on the National Fraud Initiative.	2013/14	14
The TSU has provided a summary of a reported fraud case.	2014/15	15

Local authority chapter	Audit year	Paragraphs
The TSU has provided guidance on audit of charities.	2013/14	16
The Local Authority (Scotland) Accounts Advisory Committee has issued • guidance on asset decommissioning	2013/14	42

Local authority chapter	Audit year	Paragraphs
obligations • guidance on accounting for self-directed support.	2014/15	67
The Chartered Institute of Public Finance and Accountancy has issued • updated guidance on local authority reserves • guidance on transport infrastructure assets • the *Code of practice on local authority accounting disclosure checklist for 2014/15* • an exposure draft of the 2015/16 *Code of practice on local authority accounting* • the draft *2015/16 Service reporting code of practice* • consultation paper on simplifying local authority accounts • guidance on pension fund management costs • a benchmarking analysis of accountancy functions.	2013/14 2014/15 2014/15 2015/16 2015/16 2014/15 2014/15 2013/14	54 61 70 73 88 92 95 148
The Scottish Government has issued • statutory guidance on asset decommissioning obligations • a circular on 2015/16 funding.	2013/14 2015/16	42 130
The Audit Commission has issued 2013/14 HBCOUNT modules.	2013/14	115
The Department for Work and Pensions has issued a circular on universal credit.	2014/15	124

Local authority chapter	Audit year	Paragraphs
An Act has been passed on integration joint boards.	2015/16	133
Statutory instruments have been passed • on local authority accounts from 2014/15 • new local government pension scheme • new teachers' pension scheme • universal credit • discretionary housing payments • integration joint boards.	 2014/15 2015/16 2015/16 2014/15 2014/15 2015/16	 21 111 113 121 128 141
Audit Scotland has issued reports on school education.	2013/14	147

Central government chapter	Audit year	Paragraph
HM Treasury has issued two exposure drafts of proposed changes to the 2015/16 *Government financial reporting manual*.	2015/16	151
The Scottish Government has issued an amendment to the *Scottish public finance manual*.	2013/14	158

Health chapter	Audit year	Paragraph
The Scottish Government Health and Social Care Directorates have issued • a progress report on the reduction in	2013/14	162

Health chapter	**Audit year**	**Paragraph**
management posts target • workforce forecasts for 2014/15.	2014/15	165
The Public Bodies(Joint Working)(Scotland) Act 2014 has been issued covering arrangements for health and social care integration.	2014/15	133
Commencement Orders have been issued on the *Public Bodies (Joint Working)(Scotland)Act 2014.*	2013/14	167

Further education chapter	**Audit year**	**Paragraph**
The Scottish Funding Council has issued • a letter on changing the accounting year end from 2014/15 • guidance on the discount rates for early retirement provisions. • guidance on the preparation of 2015/16 outcome agreements	2014/15 2013/14 2015/16	170 174 177
Statutory instruments have been passed to • commence sections of the *Post 16 Education (Scotland) Act 2013*. • assign colleges to University of the Highlands and Islands regional strategic body.	2014/15 2014/15	182 183

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments should be sent to pobrien@audit-scotland.gov.uk

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

New standard on financial instruments

1. The International Accounting Standards Board (IASB) has issued *IFRS 9 Financial instruments* which is a new standard on financial instruments effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). This final version of the standard replaces earlier versions and completes the IASB's project to replace IAS 39.

2. IFRS 9 applies one classification approach for all types of financial assets. The main criterion to be used in determining how financial assets should be classified and measured is concerned with the entity's business model, i.e. how an entity manages its financial assets in order to generate cash flows. The following options apply

   - Financial assets at amortised cost are held in a business model whose objective is to hold assets in order to collect contractual cash flows.

- Financial assets classified and measured at fair value through other comprehensive income are held in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Other financial assets, including those held for trading, are measured at fair value through profit or loss.

Report on presenting accounting policies

3. The Financial Reporting Council (FRC) has issued via its Financial Reporting Lab Accounting policies and integration of related financial information which considers the presentation and content of accounting policies and related information.

4. *IAS 1 Presentation of financial statements* requires significant accounting policies, and judgements made in applying the policies, to be disclosed in the notes to the financial statements. The report sets out the attributes that may indicate that an accounting policy is significant and therefore requires to be disclosed. The attributes include
    - materiality of transaction classes and amounts, and importance to the nature of the business
    - policies for all distinct revenue streams
    - where there is choice of policy under international financial reporting standards (IFRS), or significant judgement in selecting the policy
    - where there is need for management to apply significant levels of estimation or judgement in applying the policy.

5. In respect of the quality of policy disclosures, the report states that policies should
    - be written using plain, understandable language
    - describe any judgements made in selecting the policy applied, and the rationale for them
    - describe the entity's application of accounting policies (rather than summarise the standard), including the estimation/judgements made and their significance to reported amounts
    - describe new accounting requirements only if they significantly impact the financial statements
    - present the impact of changes in a tabular format.

Report on clear and concise reporting

6. The FRC has issued Towards clear and concise reporting which highlights progress made towards clearer and more concise reporting. The report results from a review of the annual reports of companies with year ends between 30 September and 31 December 2013. The aim of the review was to identify those companies which had made a significant effort in making their annual reports clearer and more concise.

7. The first part of the report looks at examples of what companies have done to aid clarity and conciseness, which includes

- reporting on specific activities during the year, and their purpose, rather than just covering process and policy
- removing standing information from the annual report to improve the prominence of the remaining disclosure
- reducing the detail presented in the financial review. Some companies presented short narratives focused on key developments covering the breadth of their operations, but moderated the depth of information
- removing elements which are no longer relevant or required. Some companies considered what each note is showing and what value the disclosure provides. Where information was clearly immaterial (both qualitatively and quantitatively), and there was no overriding disclosure requirement, it was removed
- cross-referring to other areas within the annual report or signposting to other supplementary information
- removing text which repeated narratively information that was clearly shown in tables, or presenting tables only (where no further narrative was necessary).

8. The second part of the report lays out a continuous process for improving annual reports and provides practical steps which organisations can use. Key phases of continuous improvement include
   - planning the change, including obtaining leadership from senior management in the organisation and deciding on the scope
   - identifying who will make the changes, setting targets and obtaining agreement from the board
   - starting afresh with a 'blank piece of paper', and ensuring that changes in business and regulation are reflected
   - evaluating the process, including seeking feedback from stakeholders, and reflecting how to make improvements continuous.

Corporate governance developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

New international good governance framework

9. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Federation of Accountants have issued International framework: good governance in the public sector which sets out an international governance framework for the public sector.

10. The aim of the international framework is to encourage better service delivery and improved accountability by establishing a benchmark for good governance in the public sector. The framework is not intended to replace national and sectoral governance codes, but is intended to be used when updating and reviewing these codes.

11. For the purpose of the framework, governance is defined as comprising the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. These include political, economic, social environmental, administrative, legal, and other arrangements.

12. Good practice is encapsulated within the following seven fundamental principles

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- Determining the interventions necessary to optimize the achievement of intended outcomes.
- Developing the capacity of the body, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting and to deliver effective accountability.

13. The framework considers the underlying rationale for each principle and provides supporting commentary on their key elements and the supporting sub-principles.

Publications

The following publication published since TB 2014/2 can be obtained by using the hyperlink.

Audit Scotland

The National Fraud Initiative in Scotland

14. This report from Audit Scotland sets out the outcomes from the 2012/13 National Fraud Initiative in Scotland. Key messages include the following

- Outcomes (i.e. detected fraud, overpayments and error) valued at £16 million have been recorded since the last report in May 2012.
- Some bodies could act more promptly to investigate data matches and therefore stop frauds and correct errors more quickly.
- The introduction of the Single Fraud Investigation Service has major implications for the resourcing of non-housing benefits counter-fraud work. Councils should review their counter-fraud resources in light of this change and whether they are sufficient to deal with corporate fraud.

Fraud cases

External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2014/2.

Income

15. A toilet attendant defrauded over £5,000 from a council by not collecting income due from all users of the facility and retaining cash for personal use. Key features include the following

- The fraud was identified following an agency worker reporting to his supervisor that one employee banked less income than other employees operating in the same public toilet. This led to an internal audit investigation.
- The fraud was facilitated by a lack of comparison of trends over time to ensure that amounts banked appeared reasonable.
- The service is now carrying out on-going comparisons of income received from operatives within the same public toilet. In addition, spot checks are planned to compare cash collected and tickets issued.
- The defaulter has been suspended and investigations are on-going.

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance on emerging issues

The following article provides guidance from the TSU on emerging issues

Audit of charities from 2013/14

16. TB 2014/1 (paragraph 51) provided guidance on cases where authorities are able to locate the governing documents for some of their charities. As the governing documents may specify restrictions on how income or capital can be applied or contain other specific accounting requirements, the TSU advised that, if auditors are unable to performing alternative procedures, they may judge that this constitutes a limitation on the scope of the audit.

17. Some auditors have requested further guidance on the alternative audit procedures that may be performed and clarification on the TSU's expectations regarding possible qualifications to the audit opinion.

18. Alternative audit procedures that could give reasonable assurance regarding the likelihood of the existence of any restrictions include

- establishing how many of the governing documents that are available actually contain restricted funds as an indication of how prevalent it is. Local authority trust funds tend to be small single issue charities which may be less likely to have restricted funds than larger charitable bodies.
- obtaining appropriate representations from trustees/proper officer

- reviewing correspondence/reports (including previous independent examiner reports) for any indication of restricted funds.

19. Auditors should consider the results of the procedures and assess the likelihood of restrictions that would require separate accounting. If the likelihood of restrictions is judged to be remote, a qualification of the basis of limitation of scope would not be necessary. Auditors should encourage trustees to contact OSCR to discuss how the absence of governing documents can be resolved.

20. In addition, it is recommended that disclosures be included in the financial statements for trustees to explain that the governing documents cannot be found and describe how trustees have assured themselves that the charity nevertheless meets its objectives etc. Auditors may judge that an emphasis of matter paragraph drawing attention to the disclosures is appropriate.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

New accounts regulations from 2014/15

21. The Local Authority Accounts (Scotland) Regulations 2014 have been issued to replace the 1985 regulations in respect of local authority annual accounts with effect from 2014/15. The Scottish Government has issued Finance circular 7/2014 to accompany the new regulations, which provides an explanation of the changes from the consultation draft (see technical bulletin 2013/3 - paragraph 74). The following paragraphs provide a summary of the key points in the 2014 regulations and circular.

22. Regulation 5 introduces a new requirement for local authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. The annual governance statement requires to be prepared in accordance with proper practices set out in *Delivering good governance in local government: framework* published by CIPFA and SOLACE.

23. Regulation 6(2)(b) requires a local authority's accounting records to disclose with reasonable accuracy, at any time, a summary of the financial position of the local authority. The circular advises that authorities should be able to disclose summary information on their
    - treasury position (i.e. debt, investments, cash-flows and treasury prudential indicators)
    - actual expenditure and income, and a projected year end position, for all of their revenue and capital budgets for all main service areas.

24. Regulation 7 introduces the new requirement for an authority to undertake an adequate and effective internal auditing service in accordance with the *Public sector internal audit standards*. This requirement applies from the 10 October 2014.

25. The consultation draft included a requirement for the abstract of accounts under section 96(3) of the *Local Government (Scotland) Act 1973* (the 1973 Act) to be known as the statement of accounts. However, the regulations adopt the term 'annual accounts'.

26. Regulation 8(2) requires the annual accounts to include the financial statements required by proper practices, i.e. the *Code of practice on local authority accounting in the UK* (the Code). In addition, Regulation 8(2) sets out the following statements which must be included in the annual accounts

- A management commentary prepared in accordance with proper accounting practices and recognised guidance. Separate guidance is currently being drafted which will align to the reporting requirements in the *Government financial reporting manual.*
- A statement of responsibilities to be produced in accordance with proper accounting practices and recognised guidance. Proper accounting practices are those set out in the code, adapted to reflect the Scottish context as suggested in paragraph 5 of the circular.
- An annual governance statement as required by Regulation 5.
- A remuneration report containing the information set out in the schedule (or a statement that no such report is required).
- A housing revenue account, non-domestic rate account, and council tax account, where relevant, as well as any other statement relating to statutory funds which is required by any statutory provision.

27. Regulation 8 sets out the process for the consideration of the unaudited annual accounts as follows

- Regulation 8(5) introduces a new requirement for the proper officer to ensure that the financial statements give a true and fair view of the authority’s (and its group's) financial position and transactions.
- Regulation 8(6) requires the proper officer to certify the above by signing and dating the statement of responsibilities and the balance sheets, and then submit the annual accounts to the appointed external auditor no later than 30 June.
- Regulation 8(8) introduces a new requirement to publish the unaudited annual accounts on the website of the authority until the date on which the audited annual accounts are published.
- Regulation 8(9) introduces a requirement for the authority (or a committee whose remit includes audit or governance) to consider the unaudited annual accounts at a meeting by 31 August. The circular explains that best practice is for elected members to have formally considered the unaudited annual accounts prior to submitting them to the auditor. However, the later deadline has been adopted because some authorities consider a date of 30 June to be difficult to accommodate. Authorities should, however, consider moving to a position of best practice.

28. The consultation paper proposed that the period for the inspection of the unaudited annual accounts should be common for all local authorities. The principle of a common timetable has

been kept in the regulations but, rather than a fixed period, Regulation 9 provides for an inspection period based on latest dates rather than fixed dates as follows

- Regulation 9 requires a local authority to give public notice on its website by 17 June.
- The inspection period should last for 15 working days from the date specified in the notice.
- The specified date should be at least 14 days after the notice is published, but cannot be later than 1 July 2014.

29. The current arrangement which requires the local authority to gain clearance of the public notice from the Controller of Audit will no longer apply.

30. Regulation 10 sets out the process for the consideration and signing of the audited annual accounts. The process set out in the consultation paper has changed in response to responses and is as follows

- The regulations require the local authority (or a committee whose remit includes audit or governance) to meet to consider whether to approve the audited annual accounts for signature.
- In making this consideration, the regulations require elected members to have regard to any report made, or advice provided, on the annual accounts by the proper officer or auditor (e.g. ISA 260 communication).
- The regulations require the local authority (or relevant committee) to aim to approve the audited annual accounts for signature no later 30 September.

31. Immediately following approval, the statements which form part of the annual accounts require to be signed and dated by the following individuals

- the management commentary by the proper officer, the Chief Executive and the Leader of the Council
- the statement of responsibilities by the Leader of the Council and the proper officer. The Leader of the Council is also required to certify that the annual accounts have been approved for signature, and the proper officer is required to re-certify that the financial statements give a true and fair view
- the annual governance statement by the Chief Executive and the Leader of the Council
- the remuneration report by the Chief Executive and the Leader of the Council
- the balance sheets by the proper officer to authorise the financial statements for issue using the form of words set out in the Code.

32. Following signature, the proper officer is required to provide the signed annual accounts to the auditor.

33. The regulations make no provision for the process to be followed in the event elected members fail to approve the audited annual accounts for signature. Local authorities are expected to resolve this internally but in the event this cannot be achieved they should contact the Scottish Government for further advice.

34. Regulation 10(8) requires any further reports made on the annual accounts by the auditor after they have been approved (e.g. the annual audit report) to also be considered by the authority (or relevant committee).

35. Regulation 11 requires an authority to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. To improve transparency and access to information, an authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December. Copies of these documents should remain on the website for at least five years. Any statutory reports on the accounts under section 102 of the 1973 Act should also be published on the website for every year to which the report relates.

36. The schedule to the regulations has been amended to require disclosure in the remuneration report of the number of agreed exit packages. The disclosure requirements are the same as those in the accounting code and are included for completeness. However, the regulations clarify that the cost of an exit package is to be calculated by adding together the costs of all benefits which are payable by the authority as a result of the agreement, including the capitalised cost of pension contributions in respect of added years.

37. The consultation paper included a question as to whether there should be a statutory requirement for a local authority to have an audit committee. The regulations do not make this a mandatory requirement. However, Scottish Ministers consider it important that local authorities devote sufficient council/committee resource to enable the audit committee role and other scrutiny functions to be carried out effectively. Good practice is likely to be a committee which devotes a significant part of its time to audit matters.

38. A number of respondents also considered that there should be a statutory requirement for the proper officer to be professionally qualified. Although this is not possible through secondary legislation, the annual governance statement includes a specific statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the role of the chief financial officer in local government*. The CIPFA statement includes the requirement for the proper officer to be professionally qualified and sets out the criteria for qualification.

39. The regulations apply to local government pension funds, which are therefore required to include a management commentary and annual governance statement in their annual reports. There is some duplication with *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* as they

- include a requirement for a report on the management and financial performance of the pension fund during the year to be published as part of the pension fund annual report. The circular recommends that one report is published in the annual report which satisfies the requirements of both sets of regulations.
- require the preparation of a governance compliance statement. The circular recommends that one statement is published which satisfies both sets of regulations.

40. The regulations also apply to bodies covered by section 106 of the 1973 Act. Recognising that statutory provision for charities already exists, the local authority accounting regulations for section 106 registered charities are limited to those matters with which they are required to comply under the 1973 Act, e.g. the inspection process. While there is no provision in the charities legislation for publishing the unaudited accounts, the publishing requirement has been extended to section 106 charities.

41. Auditors should confirm that their authorities have arrangements in place to comply with the regulations from 2014/15.

2013/14 guidance on accounting for decommissioning obligations

42. The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) had issued Guidance on asset decommissioning obligations to provide guidance on accounting for asset decommissioning obligations from 2013/14. The guidance is applicable to all relevant asset decommissioning obligations. Whilst LASAAC considered the matter in relation to landfill sites, the accounting will also apply to other obligations e.g. quarries, waste treatment facilities, etc.

43. The term asset decommissioning obligations refers to the initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located. This is required by *IAS 16 Property, plant and equipment* to be included in the historical cost of the asset when the criteria for recognising a provision set out in *IAS 37 Provisions, contingent liabilities and contingent assets* are met.

44. Where a provision requires to be recognised under IAS 37, a key initial task is to establish the events that trigger the obligation and the estimated cost of the obligation for each trigger event. In relation to landfill sites, consideration is required in respect of the extent of decommissioning costs incurred when the site is initially developed as well as further costs that may arise as the site is utilised.

45. The amount recognised as a provision should be the best estimate of the expenditure required to settle the present obligation at the reporting date. There may be a level of volatility in the provision required due to technological advancement, regulatory change or other factors affecting the expected costs, and consequent amendment of the asset's historical cost.

46. Authorities should account for an increase in the provision by

- reducing the balance on the revaluation reserve to the extent of any credit balance existing for the asset, with this change reflected in other comprehensive income and expenditure
- thereafter treating the increase as capital expenditure and immediately undertake an impairment review.

47. Where the effect is material, the amount of the provision should be discounted to the present value of the expected expenditure necessary to discharge the obligation. The increase in the provision that reflects the 'unwinding' of the discount each year is required to be recognised as a financing cost (interest charge) in the surplus or deficit on the provision of services.

48. The present value of the provision for the decommissioning obligation is capital expenditure. Funding requires to be identified for all capital expenditure on recognition, and any of the usual capital funding resources may be applied.

49. Where the capital expenditure is funded from borrowing, a loans fund advance is made and the capital financing requirement (CFR) increases. There is, however, no need to borrow externally at this point as the CFR represents the authorities' underlying need to borrow. By the time the expenditure requires to be incurred, the CFR will have decreased as the loan fund repayment will have been fully repaid.

50. Both the unwinding of the discount and the statutory repayment of debt will be a charge to the general fund each year. The charges to the general fund will be made prior to the actual payments being made to settle the obligation. It is for authorities to manage their cash position to ensure that cash is available to settle the obligation when it arises. Any external borrowing should be in accordance with treasury management principles.

51. Retrospective restatement may be required in 2013/14 for any previously unrecognised obligations. This will have an immediate funding impact for the local authorities affected as they are required to fund the new capital expenditure and any unwinding of the discount. Scottish Ministers have issued statutory guidance (included as an appendix to the guidance) which includes mitigation of the funding impact.

52. The statutory guidance formally sets the maximum fixed period for the repayment of the advance made for capital expenditure related to decommissioning obligations as the remaining useful life of the asset (i.e. the future period of service provided by the asset). The guidance also sets out the following transitional arrangements

- Where a retrospective restatement is required, the fixed period is still over the useful life of the asset but that period should commence from the date of restatement.
- If future decommissioning obligations that have not yet been triggered will require to be recognised in the 5 year period commencing 1 April 2013, the fixed period for a loans fund advance made during this period may commence from the date of recognition.
- Any loans fund advance made to fund an increase in the decommissioning obligation during the same 5 year period may be repaid in the same fixed period as determined for that asset when the transitional arrangement was applied.
- From 1 April 2018 (i.e. after the 5 year period) a loans fund advance will have a maximum fixed period for repayment equal to the remaining useful life of the asset.
- Where a retrospective restatement is required, a local authority may capitalise that part of the restated provision which relates to the unwinding of the discount. If a local authority chooses to borrow to fund this cost, the fixed period for the repayment of the associated loan fund advance is the useful life of the asset commencing from the date of restatement.

53. Auditors should confirm that authorities are aware of this guidance and are properly accounting for decommissioning obligations in accordance with the guidance in 2013/14

Updated guidance on local authority reserves

54. CIPFA has issued LAAP bulletin 99 Local authority reserves and balances to provide updated guidance on the establishment and maintenance of local authority reserves. The Accounts Commission report *An overview of local government in Scotland 2014* commented that more needs to be done to provide information on why reserves are held, how this fits with the authority's financial strategy and how they will be used. The principles set out in this bulletin are intended to provide an appropriate framework for these actions.

55. Reserves are generally held for the following three main purposes

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- A contingency to mitigate the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted requirements.

56. The factors involved when considering appropriate levels of reserves can only be assessed properly at a local level. It is the responsibility of chief finance officers to advise local authorities about the level of reserves and to ensure that there are clear protocols for their establishment and use.

57. In assessing the appropriate level of reserves, a well-managed authority should ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances, but reserves should not be held without a clear purpose.

58. The bulletin recommends that for each earmarked portion of the general fund, there should be a clear protocol setting out

- the reason for and purpose of the earmarking
- how and when the earmarked portion can be used
- procedures for management and control
- a process and timescale for review of the earmarking to ensure continuing relevance and adequacy.

59. In order to assess the adequacy of unallocated general reserves when setting the budget, chief finance officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks (e.g. flooding), as well as internal risks (e.g. the ability to deliver planned efficiency savings).

60. In financial reporting terms, local authorities need to ensure that they are complying with the accounting code, particularly the need to distinguish reserves from provisions.

Guidance on transport infrastructure assets

61. CIPFA has issued LAAP bulletin 100 Project plan for implementation of the measurement of transport infrastructure assets by 2016/17 to provide guidance on moving to a current value basis for transport infrastructure from 2016/17. As advised in TB 2014/3 (paragraph 143), the

2016/17 accounting Code will adopt the measurement requirements of the *Code of practice on transport infrastructure assets* (the transport code), i.e. measurement on a depreciated replacement cost basis. The transport code defined transport infrastructure assets as the road network and associated structures, street lighting and other assets.

62. The adoption of a current value basis represents a change in accounting policy from 1 April 2016, which will require full retrospective restatement. In addition, the CIPFA/LASAAC Local Authority Code Board considers that this is equivalent to a new IFRS and has therefore indicated that the disclosures necessary for a new standard that has been issued but not yet adopted will be required in the 2015/16 financial statements.

63. It is essential that finance staff, asset management practitioners and engineering professionals work together to develop and action their project plan as soon as possible in order to achieve successful implementation. The bulletin identifies the key areas and milestones which authorities should take into consideration in developing their projects plans.

64. A robust project plan should be built on authority-specific information provided through an impact assessment which is designed to identify gaps in current data, systems and processes. The impact assessment should cover the following stages

- Identification of transport infrastructure assets as defined by section 1.4 of the transport code.
- Initial consideration of whether the estimated depreciated replacement cost of transport infrastructure assets is materially different to that based on historical cost.
- Review of inventory and condition data.
- Systems audit, e.g. establish whether the system is able to store information in accordance with classifications specified in transport code, e.g. carriageways, footways, structures, street lighting, street furniture and traffic management systems.
- A gap analysis comparing the output from the initial review with the minimum data requirements for each classification set out at Appendix B to the bulletin in order to identify the key steps required for the project plan.

65. The bulletin provides an outline project plan intended as a starting point for authorities to develop their own project plans. More detail specific to each authority will be required to support each step. Key milestones and indicative timescales include the following

Timescale	Milestone
June 2015	2014/15 dry run
July - December 2015	Restate 1 April 2015 balance sheet
April 2016	Produce disclosures for 2015/16 annual accounts
June 2016	Submit 2015/16 whole of government accounts (WGA) return
July - December 2016	Restate 2015/16 annual accounts
March - June 2017	Produce 2016/17 annual accounts
June 2017	Submit 2016/17 WGA return
July - September 2017	Audit 2016/17 annual accounts

66. Auditors should confirm that authorities are developing robust project plans.

Guidance on accounting for self-directed support

67. LASAAC has issued Bulletin 1/2014 Self-directed support to provide guidance on accounting for self-directed support from 2014/15 under *The Self-directed Support (Direct Payments) (Scotland) Regulations 2014*.

68. From 1 April 2014, councils are required, for new clients or on re-assessment of support for existing clients, to offer the following options

- Direct payment to the client.
- Management of a personalised budget, which involves the selection of support by the client, and the local authority making arrangements and, where relevant, making the payment to a third party care provider.
- Services selected by the authority including, where relevant, the payment by the authority to a third party care provider.

69. LASAAC has considered whether the authority is acting as a principal or as an agent of the client in each of the options. LASAAC concluded that the authority should continue to be regarded for financial reporting purposes as acting as principal in arranging care provision i.e. the authority should record expenditure when the support service is actually provided to the client.

2014/15 disclosure checklist

70. CIPFA has issued the *Code of practice for local authority accounting in the UK - Disclosure checklist for 2014/15 accounts* which is intended to be an aide-memoire for local authorities and auditors to ensure the 2014/15 Code's disclosure requirements are met.

71. If the answer to a question in the checklist is 'no', a justification for departing from the Code requires to be given by the authority and, where the impact is material, disclosed in the financial statements.

72. It is available to inhouse auditors from the *Technical reference library*.

Draft 2015/16 code

73. The CIPFA/LASAAC Local Authority Code Board has issued an exposure draft of proposed amendments to the accounting Code for 2015/16. Comments should be sent to code.responses@cipfa.org by 10 October 2014. Inhouse auditors should contact the TSU if they have any comments they would like considered for inclusion in a corporate response to the consultation.

74. The exposure draft proposes changes to the Code in respect of

- the adoption of *IFRS 13 Fair value measurement*
- heritage assets
- accounting for employee pension contributions.

IFRS 13 Fair value measurement

75. The adoption of *IFRS 13 Fair value measurement* was deferred to 2015/16 to allow time to review the concepts which underpin its measurement requirements for property, plant and equipment and their relevance in the public sector. The key principle in IFRS 13 is that a fair value measurement represents the 'exit price' of an asset. However, CIPFA/LASAAC has previously concluded that this is not the best measurement for assets held for their service potential.

76. The draft code proposes therefore that all assets shown at their revalued amount will be described as being measured at current value. Current value will have four measurement bases, of which fair value will be one.

77. Property, plant and equipment used to support service delivery will not be measured using the fair value basis' and therefore will be outside the scope of IFRS 13. They should continue to be measured on the basis of their service potential, i.e. an existing use or depreciated replacement cost basis.

78. However, property, plant and equipment that are not being used to supply goods and services and do not meet the criteria of assets held for sale (i.e. surplus assets) would be measured using the fair value basis in accordance with IFRS 13. Currently, surplus assets are measured by an existing use valuation based on their use before coming surplus.

79. There are also proposals that disclosures regarding valuation should be enhanced to include explicit disclosure provisions to aid the understanding of the valuation techniques and inputs used to develop the measurements of property, plant and equipment and their impact, where material. Section 2.10 of the draft code contains disclosure requirements for assets measured

at fair value. In addition to the disclosures currently required, disclosures under this section will be required for surplus assets.

Heritage assets

80. The Code's provisions in respect of heritage assets are based on *FRS 30 Heritage assets*. However, FRS 30 will be replaced by *FRS 102 The financial reporting standard applicable in the UK* from 1 January 2015.

81. FRS 102 no longer includes the specific statements in FRS 30 that

- valuations for heritage assets may be made by any method that is appropriate and relevant. CIPFA/LASAAC proposes an interpretation to allow retention of that provision in the Code, but will have to consult with the FRC on that issue
- depreciation need not be provided on heritage assets which have indefinite lives. However, CIPFA/LASAAC is of the view that it is unlikely that heritage assets that have indefinite lives will be subject to depreciation and has retained the previous provisions to this effect.

82. The draft Code also retains the provisions that where information on valuation is not able to be produced at a commensurate expense, but cost information is available, heritage assets may be measured at cost. This relies on the provisions in FRS 102 which allow the assets to be measured at cost or valuation.

83. The disclosures for heritage assets are largely unchanged under FRS 102, but CIPFA/LASAAC proposes to delete the Code requirement for a five year analysis of transactions.

Accounting for employee pension contributions

84. An amendment to *IAS 19 Employee benefits* clarified the treatment of contributions to defined benefit plans by employees or third parties. Where contributions are determined independently of years of service, they should be recognised in the period the related service is rendered. CIPFA/LASAAC has determined that this is the case for the pension schemes relevant to local government.

85. The Code does not include the paragraph in IAS 19 which has been amended. However, for the avoidance of doubt, clarification that the provision applies will be added to paragraph 6.4.1.1 of the Code.

86. CIPFA/LASAAC considers that this treatment is consistent with the current approach of local authorities and therefore does not consider that there will be a significant change in accounting practice.

Other proposed changes

87. Proposed amendments to the code arising from the *Annual improvements to IFRSs 2010-2012* cycle include the following

- A requirement has been added to paragraph 3.4.2.86 to disclose the factors that are used to identify reporting segments when operating segments have been aggregated.
- Paragraph 3.9.2.7 has been added to clarify that an entity that provides key management personnel services to the authority is deemed to be a related party.

Draft 2015/16 SeRCOP

88. CIPFA has issued a consultation paper on proposed changes to the 2015/16 edition of *Service reporting code of practice* (SeRCOP). The consultation proposes changes to the definition of total cost arising from the adoption in the 2014/15 accounting Code of the new group accounts standards (see TB 2014/2 - paragraph 128). Total cost is a key SeRCOP concept and requires to be used for reporting the cost of services in the comprehensive income and expenditure statement.

89. The adoption by the Code of *IFRS 11 Joint arrangements* requires the SeRCOP section on partnerships to be updated as IFRS 11 recognises two types of joint arrangement, i.e. joint ventures and joint operations.

- Joint operations (previously referred to in SeRCOP as jointly controlled operations and jointly controlled assets) are accounted for by recognition of the authority’s share of assets, liabilities, revenues and expenses arising from the joint operation. Attributable revenue and expenditure is recognised for total cost purposes within net cost of services of the authority.
- However, where the arrangement is classified as a joint venture, consolidation should be accounted for using the equity method in group accounts as described by IAS 28. Joint ventures are therefore excluded from the total cost of local authority services and are not considered for the purposes of SeRCOP.

90. It is therefore proposed that the title of the section 'Partnerships' be renamed 'Joint arrangements'. The consultation paper also proposes removal of the related guidance material as updated comprehensive guidance in this area will shortly be provided in a new group accounts workbook.

91. Responses to the consultation were required by 12 September 2014.

Consultation on simplifying local authority accounts

92. CIPFA has issued a consultation paper to seek views on simplifying the reporting of local authority performance in the annual accounts. The feedback from the previous consultation on simplifying and streamlining the presentation of local authority financial statements (see TB 2013/3 - paragraph 118) highlighted that

- it was difficult to identify traditional local authority measures of performance, i.e. movements on the general fund
- there were a number of challenges to the application of the segmental reporting requirements and some of the reporting requirements of SeRCOP.

93. CIPFA/LASAAC has therefore decided to prioritise the review of the performance statements, e.g.

- There are options for revising how services are reported in the comprehensive income and expenditure statement, e.g. moving to reporting the service costs using the management structures that the authority uses to deliver services.
- CIPFA/LASAAC considers that the need to reconcile the accounting requirements with the statutory rules for charges to the general fund should be subject to an in-depth review. The review will also consider opportunities to provide better narrative explanations to support the movement in reserves statement.

94. Comments should be submitted to simplification@cipfa.org by 19 September 2014.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Pension funds

New guidance on management costs

95. CIPFA has issued *Accounting for local government pension scheme management costs* which sets out a framework for the consistent disclosure of local government pension scheme (LGPS) management costs from 2014/15.

96. Administering authorities are required to account for the LGPS in accordance with the accounting Code which is based on *IAS 26 Retirement benefit plans. IAS 26* requires that 'administrative expenses' are presented on the face of the fund account, but does not define that term.

97. The new guidance is consistent with the Code but is more prescriptive in respect of disclosure in the notes. The guidance recommends that, in addition to the Code requirements, funds should disclose in the notes an analysis of administrative expenses (referred to as management costs in the guidance) across the following three cost categories

- Investment management costs (see paragraph 101).
- Administration expenses (see paragraph 104).
- Oversight and governance costs (see paragraph 107).

98. The guidance is not mandatory, but it encourages administering authorities to adopt the recommended disclosure as best practice. Administering authorities are not expected to apply this guidance for 2013/14 but may choose to do so. Auditors should confirm that their authorities are aware of this new guidance and are paying it due regard.

99. The guidance can be downloaded by inhouse audit providers from the *Technical reference library*.

100. CIPFA's *Good practice example set of pension fund accounts for the LGPS* issued for 2012/13 recommends presenting investment management expenses on the face of the fund account and disclosing a detailed breakdown in the notes of both administrative expenses and investment management expenses. The 2014/15 edition, currently being prepared, will be revised to reflect the categorisation and disclosures set out in this new guidance.

Investment management costs

101. The guidance defines investment management costs as any expenses incurred in relation to the management of pension fund assets and financial instruments entered into in relation to the management of fund assets. This includes expenses that are directly invoiced by investment fund managers and any fees that are payable to fund managers which are deducted from fund assets.

102. Investment management costs should also include transaction costs associated with the acquisition, issue or disposal of fund assets and associated financial instruments. In addition, the level of transaction costs incurred should be disclosed in the commentary that accompanies the disclosure note.

103. Common areas of uncertainty in respect of investment management costs include the following

- Performance-related fees (i.e. any fee paid to a fund manager that is directly linked to achieving a specified outcome) should be included in investment management costs. They should also be disclosed separately by way of a supplementary note. Performance fees routinely apply to multi-year periods and therefore accruals should be recognised at each reporting date.
- It is common practice in pooled funds for fund management fees to be deducted from the pool at source, effectively through the redemption of units in the fund. The value of the pooled fund is then reported at the end of the reporting period net of the units redeemed. The Code does not permit netting off in this way and therefore, if the fees are not extracted, the change in value of the fund, the reported disposals in the fund, and the fund management fees would all be understated. The value of the units redeemed in lieu of fees should be identified and reported as a disposal (thereby increasing the reported profit on disposal of investments and/or change in the market value of investments) and included in investment management fees (correspondingly increasing management expenses).
- Certain types of investment (such as private equity and hedge funds) are commonly accessed through a 'fund of funds' structure. As costs will be incurred at each tier in the investment structure, costs should be reported up to the authority where the investments are actually made. In the event that the fund manager is unable to provide all of the necessary information, any limitations on the expenses disclosed should be recorded by way of narrative accompanying the management expenses disclosure note. Where managers are unable to provide the information in full in order to meet the deadline for accounts production, reasonable estimation techniques should be used.

Administration expenses

104. Pension administration expenses consist of costs related to

- members and pensioners, including all activities the pension administration must perform to administer entitlements and provide members with scheme and benefit entitlement information
- interaction with employers, e.g. data collection and verification, contributions collection and reconciliation
- associated project costs.

105. While many of the above costs will be readily and directly attributable to LGPS administrative activity, some will be derived from internal recharges. It is important therefore that the costs of administering the scheme are accurately allocated to this activity by ensuring that the recharge methodology is robust and fit for purpose.

106. Administration expenses does not include any costs incurred by the administering authority in its role as an employer in the fund, nor does it include any costs associated with the administration of any other scheme with which the administering authority is associated.

Oversight and governance costs

107. Administering authorities undertake a number of oversight and governance activities, and incur associated costs, which fall outside of the previous two cost categories. These include

- costs associated with the selection, appointment, performance management and monitoring of external fund managers
- the costs of investment advisory services
- costs associated with the operation and support of the pensions committee
- costs associated with internal or external reporting
- costs of legal services in connection with investment management.

Guidance on pension fund annual reports

108. CIPFA has issued *Preparing the annual report - guidance for local government pension scheme funds* which is intended to assist administering authorities with the preparation of the pension fund annual report.

109. The guidance represents a general framework for administering authorities to meet their obligation under *The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008* to prepare and publish an annual report for the pension fund. It highlights the topics to be covered in each section of the annual report but does not prescribe the format or layout in which the information is presented.

110. The guidance is available to inhouse audit providers from the *Technical reference library*.

New local government pension scheme

111. The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 have been issued to make transitional provisions for the new LGPS from 1 April 2015.

112. The main effect of the provisions is to protect the benefits accrued by members of the current scheme before that date.

New teachers' scheme

113. The Teachers' Pension Scheme (Scotland) Regulations 2014 have been issued to introduce a new teachers' pension scheme from 1 April 2015. The scheme is based on members' average career earnings and has a normal pension age equal to the state pension age.

114. Each member will build up a pension each year calculated at 1/57th of the member's pensionable earnings. The pension is held in a pension account and at the start of each year indexation based on the consumer price index is applied.

Benefits

2013/14 HB COUNT

115. The Audit Commission has issued modules 4 and 5 of the HBCOUNT approach to the certification of 2013/14 housing benefit (HB) subsidy claims.

116. Module 4 provides the analytical review tool component which enables auditors to review subsidy claim forms by comparing 2013/14 information with 2012/13 and with other authorities. It provides a number of useful worksheets including the following two which require to be completed

- The year-to-year worksheet where 2012/13 claim data is entered manually for comparison against 2013/14 data. Any significant variances identified should be explained in column I.
- The key ratios worksheet that allows comparison with other authorities. Any ratios highlighted in grey, pink or purple should be reviewed to establish the reason.

117. The information is for auditor use only. If auditors wish to provide authorities with outputs, they should ensure that the data for other authorities is anonymised.

118. Module 5 provides the software diagnostic tool component which aims to ensure that

- HB subsidy claims have been completed using the recognised software version and standard year end claim completion program issued by the software supplier
- the HB system has been internally balanced in terms of benefit 'granted' and benefit 'paid' using the software supplier's standard methodology
- the claim form has been completed in accordance with the requirements of the subsidy order on a relevant financial year basis

- deviations from the software supplier's standard claim completion methods are identified and assessed so that appropriate action can be taken.

119. The module contains guidance on using the software diagnostic tool as well as a control matrix for each software supplier at Appendix 1 that requires to be completed by auditors. Where control matrix questions are 'failed', auditors should complete the non-compliance data return at Appendix 2.

120. Auditors should complete in the modules in accordance with GN/HBS/14 as part of the certification of the 2013/14 HB subsidy claim.

Universal credit

121. The Universal Credit (Transitional Provisions) Regulations 2014 and The Universal Credit (Transitional Provisions)(Amendment) Regulations 2014 have been issued to provide for the second phase of the replacement of existing benefits, including HB, by universal credit (UC).

122. The regulations provide for

- claimants who move from existing benefits to UC, particularly the way in which matters relevant to the award of an existing benefit are to have effect in relation to an award of UC
- the prevention of an UC claimant from also being entitled to HB and other benefits
- most awards for HB to a claimant who has formed a couple with a UC claimant to terminate the day before the first date of entitlement to UC
- some welfare benefits to be disregarded for the purposes of the benefit cap during the claimant's first assessment period for UC. This applies where a claimant is entitled to UC before the date on which they make a claim and they were previously entitled to HB. Overpayments of existing benefits which may arise on transition to UC will be off set against entitlement to UC.
- the dual entitlement to UC and to HB to be extended to apply to the types of accommodation falling under the definition of specified accommodation.

123. The regulations revoke *The Universal Credit (Transitional Provisions) Regulations 2013* subject to certain saving provisions concerning claimants who claimed UC before these regulations came into force.

124. The Department for Work and Pensions (DWP) has issued HB circular A12/2014 Universal credit: change of circumstances affecting housing benefit to provide guidance on when a UC claimant and a HB claimant have a change of circumstance that requires closure of a HB claim.

125. Once a claimant is in receipt of UC they will remain on UC even if they move into an area where UC is not yet 'live'. If a UC claimant becomes part of a couple, living in the same household, the new claimant partner will become part of the existing UC claim and the couple will receive one monthly payment. If the new claimant partner is in receipt of HB, that HB award must be terminated.

126. It is possible that an overpayment of HB may be created for a period when the person has a genuine liability for the rent on the home they have vacated. Provision for such circumstances has been made in *The Universal Credit (Transitional Provisions) Regulations 2014* which allow HB to be paid according to HB regulations so that the new claimant partner will not experience any gap in housing support for the property they are leaving, and no overpayment will be created.

127. The provision will not apply to cases where it is the UC claimant who moves into the property of the new claimant partner. In these cases, the HB award will still end on the day before the first date of UC entitlement, because the new joint UC award will include a housing element for that property for the full period.

Discretionary housing payments

128. The Income-related Benefits (Subsidy to Authorities) and Discretionary Housing Payments (Grants) Amendment Order 2014 has been issued to amend *The Discretionary Housing Payments (Grants) Order 2001* from 2013/14.

129. The order changes the limit of the amount of expenditure a local authority can incur in making discretionary housing payments each year from 2.5 times the amount of grant made at the beginning of the year to 2.5 times the amount of grant made over the course of the year.

Finance

2015/16 funding

130. The Scottish Government has issued Finance circular 6/2014 Local government finance settlement 2015/16 to provide details of the provisional total revenue and capital funding allocations for 2015/16.

131. The following parts and annexes to the circular provide detail behind the figures

- Part A, and Annexes A to G, cover revenue grant
- Part B, and Annexes H to I, cover capital grant
- Part C and Annex J covers the *Business rates incentivisation scheme* (BRIS).

132. The circular highlights that, although they have not been agreed, those councils that exceeded the Scottish Government's revised BRIS targets for 2012/13, are allowed to retain the relevant sums. The retention is to be achieved by individual local authorities netting off an amount equivalent to the sum due from their contribution to the non-domestic rates pool for 2014/15.

Integration joint boards

New legislation

133. The Public Bodies (Joint Working)(Scotland) Act 2014 provides for the integration of health and social care and specifies the following two integration models that may be adopted

- Delegation of functions by councils and health boards to a body corporate to be known as an integration joint board (IJB).
- The delegation of functions between councils and boards (lead agency model).

134. The Act requires councils and health board partners to jointly prepare an integration scheme which sets out

- the integration model to be adopted (i.e. lead agency or IJB)
- the functions that are to be delegated through the model
- a method for determining the amounts payable or made available in respect of the delegated functions.

135. The integration scheme is required to be submitted to the Scottish Ministers for approval. It is required to be published after it has been approved and reviewed every five years.

136. The integration authority (i.e. the lead agency or IJB) is required to prepare

- a strategic plan setting out the arrangements for carrying out the integration functions which requires to be published, and reviewed every three years
- an annual statement in relation to the strategic plan setting out how much it intends to spend on the implementation of the plan.

137. An IJB will be included under the 1973 Act as a section 106 body for finance and audit requirements. It should appoint a chief officer, whose responsibilities are subject to the agreement of Ministers. Ministers may make provision about the membership, proceedings and general powers of the IJB including the ability to employ other staff.

138. The inspection arrangements of health and social services covered by an integration scheme are set out in the Act.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Acts

The Public Bodies (Joint Working)(Scotland) Act 2014

139. The Public Bodies (Joint Working)(Scotland) Act 2014 provides for the integration of health and social care (see paragraph 133).

Statutory instruments

Local government

140. The Local Authority Accounts (Scotland) Regulations 2014 (SSI 200) comes into force on 10 October 2014 (see paragraph 21).

Social care

141. The Public Bodies (Joint Working) (Scotland) Act 2014 (Commencement No 2) Order 2014 (SSI 231) comes into force on 22 September 2014 and appoints the dates for different sections of the Act to come into force.

Public service pensions

142. The Teachers' Pension Scheme (Scotland) Regulations 2014 (SSI 217) come into force on 1 December 2014 and 1 April 2015 (see paragraph 113).

143. The Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (SSI 233) come into force on 1 April 2015 (see paragraph 111).

Housing benefit

144. The Universal Credit (Transitional Provisions) Regulations 2014 (SI 1230) came into force on 16 June 2014 (see paragraph 121).

145. The Universal Credit (Transitional Provisions)(Amendment) Regulations 2014 (SI 1626) come into force on 13 October 2014 and 3 November 2014 (see paragraph 121)

146. The Income-related Benefits (Subsidy to Authorities) and Discretionary Housing Payments (Grants) Amendment Order 2014 (SI 1667) came into force with effect from 1 April 2013 (see paragraph 128).

Publications

The following publications published since TB 2014/2 can be obtained by using the hyperlinks.

Audit Scotland

School education

147. This report from Audit Scotland School education assesses how efficiently and effectively councils are using their resources to maximise pupil achievement in schools. Key messages include the following

- Around two-thirds of education expenditure in 2012/13 was on staff costs. Councils' spending on education fell by 5% between 2010/11 and 2012/13, largely as a result of employing fewer staff. Councils need to be alert to the potential impact of increased workloads on remaining staff.
- Performance has improved against all ten of the attainment measures examined over the last decade. However, there is significant variation in attainment between individual councils, schools, and groups of pupils.

- Councils that have made the most improvements have focused on areas such as developing leadership skills, and improving both teacher quality and systems for monitoring and tracking pupil data.

Accounting

Benchmarking analysis - accountancy in local government

148. This guide from CIPFA *Benchmarking analysis - accountancy in local government* provides an insight into the current state of local government accountancy functions across the United Kingdom. The guide considers what the accountancy function does, how it is organised, its roles and different structures, as well as trends and recent developments in how local authorities provide accountancy and finance services.

149. Using information from CIPFA's accountancy benchmarking club, it also looks at

- the cost of the accountancy function, including how much it costs to support different services
- how the accountancy function is staffed, including the number of staff and what they are paid, their levels of qualification and how staff turnover compares across different local authorities
- the quality of service that the accountancy function provides, including how local authorities report final performance and how successful they are at budgeting and forecasting
- the future of the accountancy function, including the key themes that are impacting on its work, and the key issues and challenges that local authority accountants are facing.

150. The guide is available to inhouse audit providers from the *Technical reference library*.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraphs 19 to 20 in respect of absent charity governing documents?			
2 Have you carried out the action recommended at paragraph 41 in respect of the new local authority accounts regulations?			
3 Have you carried out the action recommended at paragraph 53 in respect of asset decommissioning obligations?			

	Yes/No/N/A	Initials/date	W/P ref
4 Have you carried out the action recommended at paragraph 66 in respect of transport infrastructure assets?			
5 Have you carried out the action recommended at paragraph 98 in respect of LGPS management costs?			
6 Have you carried out the action recommended at paragraph 120 in respect of certification of the 2013/14 HB subsidy claim?			

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Proposed amendments to 2015/16 FReM

151. HM Treasury has issued two exposure drafts containing proposed changes to the 2015/16 *Government financial reporting manual* (the FReM) in respect of

- the application of *IFRS 13 Fair value measurement*
- simplifying and streamlining the accounts.

152. Comments should be sent to FREM.consultation@hm-treasury.gov.uk by 13 October 2014.

Application of IFRS 13

153. Exposure draft (14)1 Application of IFRS 13 Fair value measurement for the public sector seeks views on the proposed amendments arising from the application of IFRS 13, which sets out the measurement and disclosure requirements where an asset or liability is measured at fair value.

154. IFRS 13 defines fair value as the 'exit price' for an asset or liability, which is based on the concept that assets are held to generate future inflows of economic benefit. Treasury has concluded that this is not appropriate for public sector assets which are held to deliver public

services, rather than to realise future cash flows. This exposure draft distinguishes between those assets which are held for their service potential (i.e. operational assets) and those that are held for financial return or are surplus. It proposes that IFRS 13 should apply in full to assets which are not held for their service potential, but that operational assets should be assessed as being either in use or surplus

- In use operational assets will be valued in accordance with the existing adaptations of *IAS 16 Property, plant and equipment* to produce a current value of their service potential based on their existing use.
- The valuation of operational assets which are surplus will depend on whether there are restrictions on the asset's use or disposal, i.e. extensive procedural hurdles prior to any possible sale that constitute a lack of access to the market
  - Where there are restrictions, the asset will be valued on the same basis as in use operational assets.
  - If there are no restrictions on accessing the market, the asset will be measured at fair value in accordance with IFRS 13.

Simplifying and streamlining the accounts

155. Exposure draft (14)02 Implementation of the simplifying and streamlining accounts project seeks views on the proposed amendments arising from the *Simplifying and streamlining accounts* project. The exposure draft proposes restructuring the annual report and accounts into three sections covering

- performance
- accountability
- financial statements.

156. The purpose of the performance report would be to provide information on the public body's main objectives, strategies and risks. The requirements are based on the strategic report and aspects of the directors' report as set out in the *Companies Act 2006*. The performance report would have two sections

- The overview section would give summary information on the body's purpose, key risks to the achievement of its objectives, and how it has performed during the year.
- The performance analysis section would be for entities to report on their most important performance measures.

157. The requirements of the accountability report are based on the matters that the *Companies Act 2006* requires to be dealt with in a directors' report and in a remuneration report. The accountability report is required to have three sections

- A corporate governance report to explain the composition and organisation of the body's governance structures and how they support the achievement of its objectives. As a minimum, the report must include: the directors' report; the statement of accounting officer's responsibilities; and the governance statement.

- The remuneration and staff report sets out the body's remuneration policy for directors, reports on how that policy has been implemented, and sets out the amounts awarded to directors and, where relevant, the link between performance and remuneration.
- Parliamentary accountability and audit report brings together the key Parliamentary accountability documents, including the auditor's report.

Other developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Finance guidance notes

Amendment to SPFM

158. The Scottish Government has issued Finance guidance note (FGN) 2014/06 to announce a recent substantive amendment to the *Scottish public finance manual*.

159. The section on Severance, early retirement and redundancy terms has been expanded and renamed to cover settlement agreements. The term settlement agreement refers to any binding agreement between an employer and an employee to settle an employment dispute. They normally relate to the termination of employment but can also be used to settle disputes during employment.

160. Before offering or entering into any settlement agreement, central government bodies are required to consult with the Scottish Government by submitting a business case, which should include

    - an explanation of the circumstances of the case, including the legal assessment of the risk of litigation and likely outcome
    - an assessment of the value for money offered by the proposal
    - any non-financial considerations, e.g. where it is desirable to end a person's employment but dismissal is not warranted.

161. An overview of the process and supporting guidance is provided at Annex 1 of the revised section.

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Developments

The documents referred to in the following articles can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Pay and workforce planning

Progress report on reducing management posts

162. The Scottish Government Health and Social Care Directorates (SGHSCD) have published 25% reduction in senior management posts target - National progress towards 25% reduction as at 31 March 2014 which highlights the progress towards reducing the number of senior managers by 25% by 1 April 2015.

163. The overall reduction in senior management for

- the year to 31 March 2014 was 89.8 whole time equivalent (WTE) posts (8.8%). This represented a reduction of 8.3% in territorial boards and 11.2% in special boards
- the four years to 31 March 2014 was 386.2 WTE (29.3%).

164. These figures differ from other published data on management costs as they exclude posts that are clinically orientated or involve the support of frontline services.

2014/15 workforce forecasts

165. The SGHSCD has published NHS board projected staff in post changes In 2013/14 which highlights the potential effect on each board's workforce based on their local delivery plans for 2014/15. This includes the following

- There is a projected overall increase of 0.9%.
- The only estimated reduction is in ambulance service posts (1.8%), which is due to reclassifications and enhanced skill mix.
- The administrative services figure includes a reduction in management posts of 2.7%.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's Technical reference library.

Acts

The Public Bodies (Joint Working)(Scotland) Act 2014

166. The Public Bodies (Joint Working)(Scotland) Act 2014 provides for the integration of health and social care. See paragraph 133.

Statutory instruments

National Health Service

167. The Public Bodies (Joint Working) (Scotland) Act 2014 (Commencement No 1) Order 2014 (SSI 202) came into force on 25 July 2014 and brings in to force an amendment to the *National Health Service Residual Liabilities Act 1996*.

168. The amendment extends provision for the transfer of residual liabilities of Scottish health service bodies to the Common Services Agency for the Scottish Health Service.

169. The Public Bodies (Joint Working) (Scotland) Act 2014 (Commencement No 2) Order 2014 SSI 231 comes into force on 22 September 2014 and appoints the dates for different sections of the Act to come into force.

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlink, and are available to external auditors from Audit Scotland's *Technical reference library*.

Change of college year end from 2014/15

170. The Scottish Funding Council (SFC) has issued a letter advising that the accounting year end date for colleges will move back to 31 July with effect from 2014/15. HM Treasury have allowed this derogation from the requirement for a 31 March year end, subject to colleges meeting the Treasury budgeting and reporting requirements at that date.

171. Colleges will therefore prepare accounts for the 16 month period to 31 July 2015, with comparative figures for the 8 month period to 31 March 2014. This does not apply to colleges incorporated with the University of Highlands and Islands (UHI) which retained the 31 July year end in 2013/14.

172. Reporting requirements as at 31 March will be based on the returns that colleges currently provide to the SFC. The March returns will be used by the SFC to provide provisional outturn figures to the Scottish Government for submission to the Treasury. Colleges are required to provide the SFC with a statement of adjustments to these provisional figures by the end of September. The SFC anticipates that these adjustments will be subject to audit review.

173. Colleges are still subject to Treasury budgetary controls and will need to ensure that they do not exceed their resource limits as at 31 March. Any donations to arm's length foundations also still require to be made by that date.

Guidance on early retirement provisions

174. The SFC issued Guidance for early retirement provision spread-sheet completion to set out the suggested net interest rate for early retirement pension calculations for colleges with a 31 July 2014 year end, i.e. UHI incorporated colleges.

175. The suggested net interest rate for consumer price indexed schemes is 1.50%.

176. Auditors should confirm their colleges have used an appropriate discount rate when calculating their early retirement provision, and have paid due regard to the rate suggested by the SFC.

Other developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Finance

New guidance on 2015/16 outcome agreements

177. The SFC has issued Delivering college outcome agreements funds for academic year 2015/16 to provide guidance on preparing outcome agreements for 2015/16.

178. Outcome agreements are intended to enable SFC and colleges to demonstrate the impact of the sector and its contribution to meeting Scottish Government priorities. The outcome agreement should consist of a regional context statement and an outcome progress table.

179. It is expected that the 2015/16 agreements will be a refresh of the three year outcome agreements signed earlier in 2014, updated to reflect recent changes including, for example, the *Post 16 Education (Scotland) Act 2013* duties in relation to access.

180. A new simplified approach to funding colleges from 2015/16 is being developed. The main elements include

- replacing the system of weighted student units of measurement with a more transparent system measuring activity through ‘credits'
- using a negotiation model rather than a formulaic allocation to determine any change in each region.

181. Annexes A to G of the guidance provide further detail on the preparation of the agreements

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Education

182. The Post-16 Education (Scotland) Act 2013 (Commencement No 5) Order 2014 (SSI 144) came into force on 1 August 2014 and inserted the UHI into Part 2 of schedule 2A to the *Further and Higher Education (Scotland) Act 2005* as a regional strategic body from that date.

183. The Assigned Colleges (University of the Highlands and Islands) Order 2014 (SSI 146) came into force on 1 August 2014 and assigned, Inverness College, Lews Castle College, Moray College, The North Highland College, Orkney College, Perth College, Shetland College and West Highland College to the UHI.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 176 in respect of the discount rate when calculating early retirement provisions?			

Contact points

Specific enquiries or requests for further information relating to articles contained in each chapter of this TB should be made to

Contact	Chapter
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Technical bulletin 2014/4

October to December

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Contents

Foreword

Informing judgement, Improving quality

Audit Scotland's Technical Services Unit (TSU) informs the professional judgement of appointed external auditors on technical matters to improve the quality of the audit delivered to the Accounts Commission and Auditor General for Scotland. The TSU provides authoritative guidance and practical assistance to support appointed auditors in carrying out their responsibilities under the *Code of audit practice* to

- provide an opinion on audited bodies' financial statements and, where required, the regularity of transactions
- review and report on other information published with the financial statements, including governance statements and remuneration reports
- examine and report on approved grant claims and other returns submitted by local authorities
- review and report on whole of government accounts returns.

Authoritative guidance includes technical bulletins (TBs) prepared by the TSU at quarterly intervals, which are approved by the Assistant Auditor General. TBs provide a composite of technical developments in the quarter that are relevant to external auditors' responsibilities referred to above, and provide auditors with guidance on any emerging issues.

It is important that auditors read this technical bulletin promptly so they are familiar with the information and guidance provided. The auditor action checklist section at the end of each chapter should be completed by a senior member of the audit team.

While auditors act independently, and are responsible for their own conclusions and opinions, the TSU has a role in ensuring that those conclusions and opinions are reached on the basis of informed judgement. Consistency in similar circumstances is important and **the *Code of audit practice* therefore states that auditors should normally follow TSU guidance. Auditors should advise the TSU promptly if they intend not to follow any guidance on an important issue**.

TBs are available to external auditors from Audit Scotland's *Technical reference library,* and published on the Audit Scotland website so that audited bodies and other stakeholders can access them.

Headlines

The table in this chapter provides brief headlines for the content of this TB, and the audit year to which it relates, referenced to the paragraphs containing the main article.

Cross-sectoral chapter	Audit year	Paragraphs
The TSU has provided an update on the application of revisions to ISA 700 to the public sector.	2014/15	1 - 5
The IASB has issued proposed amendments to the group accounting standards in respect of measuring quoted investments.	Not yet known	6 - 8
The FRC has issued a revised edition of the *UK Corporate governance code that will apply to reporting periods beginning on or after 1 October 2014.*	2015/16	9 - 11
The FRC has issued *Guidance on risk management, internal control and related financial and business reporting* to provide guidance on risk management and internal control for reporting periods beginning on or after 1 October 2014.	2015/16	12 - 13
The FRC has issued revised versions of three UK auditing standards for the audit of those bodies that report compliance with *UK Corporate governance code* for reporting periods beginning on or after 1 October 2014.	2015/16	14 - 16
OSCR has issued two new SORPs on accounting for charities for accounting periods after 1 January 2015.	2015/16	17 - 26

Cross-sectoral chapter	Audit year	Paragraphs
CIPFA has published guidance for internal auditors on their role in improving their organisation's risk management processes.	2014/15	28 - 29
CIPFA has published a guide intended to help public sector bodies develop effective capital strategies and to use their assets efficiently.	2014/15	30
The TSU has provided a summary of a reported fraud case.	2014/15	31

Local authority chapter	Audit year	Paragraphs
The TSU has issued a note for guidance on auditing 2014/15 local authority annual accounts.	2014/15	32 - 34
The TSU has issued a note for guidance on auditing 2014/15 local authority charity annual accounts	2014/15	35 - 37
The TSU has provided a summary of a review of 2013/14 independent auditor's reports.	2013/14 and 2014/15	38 - 42
The TSU has provided a summary of a review of 2013/14 charity annual accounts.	2013/14 and 2014/15	43 - 47
CIPFA has issued the guidance notes to the *2014/15 Code of practice on local authority accounting in the UK*.	2014/15	48 - 60
CIPFA has issued the *2015/16 Service reporting code of practice for local authorities*	2015/16	61 - 65

Local authority chapter	Audit year	Paragraphs
The DWP has issued three circulars on the real time information data matching exercise.	2014/15	66 - 70
The DWP has issued details of decisions made by the Upper Tribunal relating to the removal of the spare room subsidy.	2014/15	71 - 73
The DWP has issued an update on the roll -out of universal credit.	2014/15	74
The DWP has issued details of a new fraud and error reduction scheme.	2014/15 and 2015/16	75 - 81
The DWP has issued details of the provisional housing benefit administration subsidy for 2015/16.	2015/16	82 - 83
The DWP has announced funding to meet the costs of the Single Fraud Investigation Service.	2014/15	84 - 85
The Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014 has been issued on integration joint boards.	2015/16	86 - 89
CIPFA has published a guide to welfare reform.	2014/15	99

Central government chapter	Audit year	Paragraph
The NAO has issued a disclosure checklist for the *2014/15 Government financial reporting manual*.	2014/15	100 - 102

Central government chapter	Audit year	Paragraph
The Scottish Government has issued an amendment to the *Scottish public finance manual*	2014/15	103 - 104

Health chapter	Audit year	Paragraph
The TSU has issued a good practice note on improving NHS annual accounts.	2014/15	107 - 108
The Scottish Government has issued a circular on 2014/15 remuneration of non-executives	2014/15	109

Further education chapter	Audit year	Paragraph
The FE/HE SORP Board has issued a new *Accounting for higher and further education - statement of recommended practice.*	2015/16	126 - 134
The SFC has issued a communication on the new *Accounting for higher and further education - statement of recommended practice*.	2015/16	135 - 136
The SFC has issued a request for 2013/14 financial statements.	2013/14	137 - 139

Cross-sectoral chapter

Introduction

This chapter contains articles on cross-sectoral technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by all external auditors. Developments and guidance that are relevant to only one sector are covered in the relevant sector-specific chapter. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and, for local authorities, grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

The TSU encourages feedback on this TB. Comments should be sent to pobrien@audit-scotland.gov.uk

TSU developments

Guidance on emerging issues

The following article draws auditors' attention to a new reporting requirement.

Application of revised ISA 700 to public sector

1. Technical bulletin 2013/2 (paragraph 20) advised auditors that a revised version of *ISA 700 (UK&I) The independent auditor's report on the financial statements* had been issued which contained changes to the independent auditor's report for bodies that report their compliance with the *UK Corporate governance code* from 2013/14.

2. The changes required the independent auditor's report to
   - describe those assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team
   - provide an explanation of how the auditor applied the concept of materiality in planning and performing the audit, and specify the threshold used by the auditor as being materiality for the financial statements

- provide a summary of the audit scope, including an explanation of how the scope was responsive to the assessed risks of material misstatement and the auditor's application of the concept of materiality.

3. Auditors were also advised that Audit Scotland was considering how this enhancement in auditor reporting should be applied in the Scottish public sector as only two audited bodies (Scottish Water and Scottish Canals) report compliance with the governance code.

4. Audit Scotland has decided that the matters listed at paragraph 2 should be included in the annual audit report (rather than independent auditor's report) from 2014/15 of all audited bodies (other than Scottish Water and Scottish Canals). In addition, the findings from the audit procedures performed in respect of each risk of material misstatement should also be reported (or a statement that there is nothing to report).

5. Auditors should ensure they report the required matters in their 2014/15 annual audit reports.

Accounting developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Exposure draft on measuring quoted investments

6. The International Accounting Standards Board (IASB) has issued Exposure draft ED/2014/4 Measuring quoted investments in subsidiaries, joint ventures and associates which proposes amendments to the group accounting standards in respect of measuring quoted investments.

7. The unit of account for investments within the scope of the group accounting standards is the investment as a whole rather than the individual financial instruments included within that investment. The proposed amendments clarify that an entity should measure the fair value of quoted investments as the product of the quoted price for the individual financial instruments and the quantity of financial instruments.

8. Comments are required via the IASB website by 16 January 2015.

Corporate governance developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Revised governance code

9. The Financial Reporting Council (FRC) has issued a revised edition of the UK Corporate governance code that will apply to reporting periods beginning on or after 1 October 2014. A key change is to differentiate between the board's assessment of the organisation's future viability and its ability to adopt the going concern basis of accounting.

10. Directors are required to state whether they considered it appropriate to adopt the going concern basis of accounting, and identify any material uncertainties to the organisation's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

11. In respect of their assessment of viability, directors are required to

- confirm in the annual report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity
- describe those risks and explain how they are being managed or mitigated
- explain in the annual report how they have assessed the prospects of the organisation, over what period they have done so and why they consider that period to be appropriate
- state whether they have a reasonable expectation that the organisation will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary
- monitor the organisation's risk management and internal control systems and, at least annually, conduct carry out a review of their effectiveness of the organisation's risk management and internal control systems, and should report to shareholders on that review in the annual report.

Revised guidance on risk management and internal control

12. The FRC has issued Guidance on risk management, internal control and related financial and business reporting to provide guidance on risk management and internal control for reporting periods beginning on or after 1 October 2014. The guidance revises, integrates and replaces the current editions of the FRC's *Internal control: revised guidance for directors on the combined code* and *Going concern and liquidity risk: guidance for directors of UK companies*, and reflects changes made to the *UK Corporate governance code* referred to at paragraph 9.

13. This guidance provides a high-level overview of some of the factors boards should consider in relation to the design, implementation, monitoring and review of the risk management and internal control systems. It refers to 'principal' risks, rather than 'significant' risks to align the terminology with the new strategic report requirements (see TB 2013/4 - paragraph 9). However, the FRC considers that the amendment should not be seen as implying a change in the nature of the risks referred to.

Auditing developments

The documents referred to in the following article can be obtained by using the hyperlink, and are available to external auditors from Audit Scotland's *Technical reference library*.

Changes to auditing standards

14. The FRC has issued revised versions of three UK auditing standards that apply to the audit of those bodies that report compliance with *UK Corporate governance code* for reporting periods beginning on or after 1 October 2014. The revised standards are
    - *ISA(UK&I) 570 Going concern*
    - *ISA (UKI) 700 The independent auditor's report on the financial statements*
    - *ISA(UK&I) 260 Communication with those charged with governance.*
15. Following the amendment to the governance code (see paragraph 9), paragraph 17-2 has been added to ISA 570 which requires auditors to read and consider the disclosures referred to at paragraphs 10 and 11. Paragraph 16-1 of ISA 260 has been revised to require relevant auditors to give their views to those charged with governance.
16. Auditors are also required to determine whether they have anything material to add or to draw attention to in the independent auditor's report in relation to these disclosures. Paragraph 22C has been added to ISA 700 which requires auditors to add a statement to the auditor's report in this respect. Matters to be considered in making this determination include
    - whether the auditor is aware of information that would indicate that the annual report and accounts taken as a whole are not fair, balanced and understandable in relation to the principal risks facing the entity
    - matters relating to the robustness of the directors' assessment of the principal risks facing the entity and its outcome, including the related disclosures in the annual report and accounts, that the auditor communicated to the audit committee and that are not appropriately addressed in the section of the annual report that describes the work of the audit committee.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Charities

New SORPs

17. The Office of the Scottish Charity Regulator has issued the following two new statements of recommended practice (SORPs) on accounting for charities for accounting periods after 1 January 2015

- A SORP for charities that follow FRS 102.
- A SORP for charities that follow the *Financial reporting standard for smaller entities* (FRSSE). This SORP should only be used by charities that meet the size criteria that define a small company under the *Companies Act 2006* and choose to apply the FRSSE.

18. The SORPs provide guidance to charities in the UK that prepare accounts on the accruals basis. They set out how charities are expected to apply the relevant standard to their particular activities and transactions, and explain how charities should present and disclose their activities and funds within their accounts. They also include additional charity-specific requirements including those relating to the trustees' annual report, fund accounting, and additional disclosures.

19. The SORPs have a number of core modules to which all charities must refer when preparing their accounts and report. Supplementing these core modules, there are additional modules that apply in certain cases.

20. Significant differences between the FRS 102 SORP compared with the previous edition (the 2005 SORP) are summarised in the following paragraphs.

21. Changes to the trustees' annual report include the following

- Charities are required to explain any policy for holding reserves and state the amounts and why they are held. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision.
- The concession allowing the disclosure of the names of trustees to be limited to a maximum of 50 has been dropped and instead all trustees who acted in the year or who are in position at the date the report is signed must be listed.

22. The number of headings within the statement of financial activities (SoFA) has been reduced and some have been renamed, e.g.

- The heading 'voluntary income' has been renamed income from 'donations and legacies'.
- 'Costs of generating voluntary income', 'fundraising trading: cost of goods sold and other costs' and 'investment management costs' are all combined in a new heading expenditure on 'raising funds'.
- The heading of 'governance costs' has been dropped with these costs being included in expenditure on 'charitable activities'. For those charities reporting on an activity basis, governance costs are a separate component of support costs.
- Gains and losses on investment assets are now presented before the total for 'net income/ expenditure'. Under the 2005 SORP, it was within 'other gains and losses' after the total for 'net incoming/outgoing resources'.

23. Where FRS 102 allows an accounting policy choice, the SORP identifies whether a particular treatment is required or whether charities can exercise a choice. The 2005 SORP listed the most common accounting policies and discussed a number of them in detail. However, the new SORP instead considers the selection of accounting policies and what constitutes compliance with the SORP at a principles level. This is not expected to result in a widespread changes, but there are a number of significant changes that may affect particular charities. Some key changes include the following

- The FRS 102 SORP requires that investment properties are measured initially at cost and subsequently at fair value at the reporting date. The 2005 SORP permitted 'any reasonable approach to market valuations' but FRS 102 requires valuations to be made by an independent expert or disclosure that this has not been done.
- Income should be recognised when its receipt is 'probable' whereas the equivalent criterion under 2005 SORP was 'virtually certain'.
- The FRS 102 SORP distinguishes between accounting for 'basic' financial assets and financial liabilities and 'other' financial assets and financial liabilities. The 2005 SORP made only limited reference to financial instruments.

24. The FRS 102 SORP introduces a new class of investment termed 'social investment'. Social investment covers 'programme related investments' which is used in the same way as the 2005 SORP to describe investments made primarily to further the charitable aims of the investing charity. Social investment also includes a new sub-class of investment termed 'mixed motive investments' which is an investment made both to generate an investment return and to further the investing charity's purposes.

25. The accounting policies adopted by charities following the FRSSE SORP must follow that standard when it specifies a particular accounting treatment. Each module of the SORP refers to the accounting treatments and disclosures required by the FRSSE, and also identifies any additional disclosures or presentational requirements. Where the FRSSE allows an accounting policy choice, the relevant SORP module identifies when the adoption of a particular policy is more appropriate in the circumstances of a charity.

26. Some significant differences between the FRSSE SORP and the FRS 102 SORP are summarised in the following paragraphs

- Gains and losses on investment assets count towards net income/expenditure in the FRS 102 SORP but are excluded from net income/expenditure in the FRSSE SORP. An additional category of 'other gains and losses' is present in the FRS 102 SORP only.
- The FRSSE requires the separate disclosure of 'exceptional items' which are exceptional by virtue of size or incidence whereas FRS 102 requires the separate disclosure of 'material items'. FRS 102 has an additional category of 'extraordinary items' which fall outside of ordinary activities and are of an abnormal nature and unlikely to recur; these must be disclosed separately in the SoFA after the total for net income/expenditure.
- The FRSSE requires the costs of 'a fundamental reorganisation or restructuring that has a material effect on the nature or focus' of a charity to be disclosed whereas FRS 102 requires the separate disclosure of discontinued operations which must be done by way of additional columns in the SoFA.
- The FRSSE SORP permits charities with an existing accounting policy of capitalising the data capture costs of internally generated databases to continue this accepted practice

but this is accounting treatment is prohibited by FRS 102 and therefore is not an option under the FRS 102 SORP.

- Both SORPs require the discounting of liabilities and provisions for the time value of money where settlement is delayed for more than 12 months but the suggested discount rates differ with the FRSSE making reference to government bonds and FRS 102 to a market rate of interest or the opportunity cost of investment income forgone, as applicable.
- The FRS 102 SORP includes a section on the treatment of employee benefits which is not found in the FRSSE. The accrual of paid annual leave (holiday pay) and paid sick leave, where material, is required by FRS 102 but is not required by the FRSSE.
- FRS 102 requires more extensive disclosures than the FRSSE regarding the uncertainties relating to commitments and any reimbursements.
- The FRSSE uses the term write-down of assets whereas FRS 102 uses the term impairment.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Charities

27. The Charities Accounts (Scotland) Amendment Regulations 2014 (SSI 295) come into force on 1 January 2015 and amend the principal 2006 regulations to reflect the new charity SORPs (see paragraph 17).

Publications

The following publications published since TB 2014/3 can be obtained by using the hyperlinks or are available to inhouse external auditors from Audit Scotland's *Technical reference library* (licensing restrictions prevent them being available to the firms).

Risk management

It's a risky business

28. This publication from the Chartered Institute of Public Finance and Accountancy (CIPFA) *It's a risky business* provides internal auditors with guidance on their role in improving their organisation's risk management processes. It focuses on business risk (i.e. the risks that might prevent a business achieving its objectives) and the role that audit can play in giving confidence to the business that its risk is being managed.

29. It has been updated since the 2005 edition to reflect the latest professional standards for internal audit, and developments in governance and the UK public sector generally. It includes examples and case studies to illustrate how internal auditors can provide assurance on, and contribute to, the improvement of risk management. The publication

- describes the concepts and sets out internal audit's responsibilities for governance, risk management, internal control and assurance
- provides guidance on assessing the risk maturity of the organisation, developing an approach to auditing the elements of the risk management process and contributing to the assurance framework
- sets out how internal auditors can apply the concept of risk to the audit planning process, undertaking risk-based audit assignments and thereby supporting the head of internal audit opinion.

Financial management

Capital strategies and programming

30. This guide from CIPFA *Capital strategies and programming* is intended to help public sector bodies develop effective capital strategies and to use their assets efficiently. It explains that established good practice involves

- developing asset and capital strategies that facilitate a long term approach to decision-making
- ensuring that assets are only held as needed to achieve the organisation's objectives
- maximising efficiency in the management and use of assets
- ensuring that the pressure to achieve savings in the short term does not compromise the value of assets through lack of investment
- ensuring that capital investment is targeted where it will achieve the greatest long term benefit.

Fraud cases

External auditors are required to submit to the TSU information on cases of reportable fraud that arise at audited bodies. The following is a summary of fraud cases that have been reported by auditors to the TSU since TB 2014/3.

Theft

31. An unknown perpetrator stole lengths of copper piping and metal cabling valued at £40,000 from a site where a council office was being demolished. Key features include the following

- The theft was identified during an inspection of the site by council officers.
- It was facilitated by the entrance gates to the site not being locked.
- The matter has been reported to the police.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 5 in respect of enhanced reporting in the annual audit report?			

Local authority chapter

Introduction

This chapter contains articles on local authority technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the local authority sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance, urgent issue notes and grant notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Guidance notes

The following guidance notes have been published by the TSU since TB 2014/3. They can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Note for guidance on auditing 2014/15 local authority annual accounts

32. The TSU has published Note for guidance 2014/11(LA) Audit of 2014/15 local authority annual accounts to provide auditors with guidance on planning and performing the audit of the 2014/15 local authority annual accounts.

33. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2014/15 financial statements to inform auditors' own risk assessments. The note also provides guidance on auditors' responsibilities to
    - audit and express an opinion on elements of the remuneration report
    - express an opinion on the consistency of the management commentary with the financial statements
    - report on other matters such as the annual governance statement.

34. Auditors should use this note for guidance when planning and performing the audit of the 2014/15 local authority annual accounts.

Note for guidance on auditing 2014/15 local authority charity annual accounts

35. The TSU has published Note for guidance 2014/12(LA) Audit of 2014/15 local authority annual accounts (section 106 charitable funds) to provide auditors with guidance on planning and performing the audit of the 2014/15 annual accounts of registered charities that fall within section 106 of the *Local Government (Scotland) Act 1973*.

36. The note for guidance provides guidance on the areas that the TSU considers represent a generic risk of material misstatement in the 2014/15 financial statements and on auditors' responsibilities to express an opinion on the consistency of the trustees' annual report with the financial statements and report on other prescribed matters.

37. Auditors should use this note for guidance when planning and performing the audit of the 2014/15 local authority charity annual accounts.

Guidance on emerging issues

The following articles provide guidance from the TSU on emerging issues

Review of 2013/14 independent auditor's reports

38. The TSU has carried out a review of the independent auditor's reports on councils' 2013/14 annual accounts. The primary purpose was to check compliance with the model auditor's reports and application guidance provided in note for guidance 2014/5. The models and guidance are provided to ensure that the reports are consistent.

39. Key findings from the review include the following

- The reports for four councils fully complied with the guidance.
- The reports for the other councils had some areas for improvement including the following
  - The financial statements listed in the introductory paragraph did not exactly match the financial statements included in the annual accounts.
  - The model wording had not been tailored to reflect the terminology used by the councils in respect of the job title of the chief financial officer, the name of individual statements, or the name of the document containing the annual accounts.
  - The 'Bannerman' paragraph did not follow the model wording.
  - In a small number of councils, there were significant divergences from the model wording.

40. The TSU will enhance the guidance that accompanies the model reports for 2014/15 to assist auditors address these issues and will consult with auditors before publication. Auditors should ensure they comply with the model independent auditor's reports and guidance for 2014/15.

41. Other information gathered from the review includes the following

- There were no modifications to the opinions on the financial statements, remuneration report or explanatory foreword.
- Three councils failed to meet a prescribed financial objective. In each case, it was a failure of a significant trading operation to break even over a three year period.
- There was no reporting in respect of the new responsibility to include an 'other matter' paragraph if the information other than the financial statements was materially incorrect based on, or inconsistent with, auditors' knowledge.

42. The review also identified that the positioning of the independent auditor's report within the annual accounts document varies. At 15 councils it appeared as the last page (after any glossary of terms) and at two councils it appeared as the first page (before the explanatory foreword). Although there is no specific requirement regarding the positioning of the auditor's report, the TSU considers it to be good practice for it to appear either immediately before or after the financial statements. Auditors are encouraged to discuss this matter with local authorities and satisfy themselves that their report is positioned within the document so that it is given appropriate, but not undue, prominence.

2013/14 charity accounts

43. Previous TSU guidance has advised auditors to encourage local authorities to reorganise their registered section 106 charities to reduce the number to a minimum, preferably one. Although there is evidence of some success, 125 separate sets of accounts were prepared and submitted for audit in 2013/14 covering 359 registered charities. Only four councils reduced the number of charities to one, and three councils had no charities.

44. Where it was not possible to reduce the number of registered charities for 2013/14, authorities have been encouraged to take advantage of the connected charities provisions so that, even if they had number of charities, only one sets of accounts required to be prepared and audited. However, only ten councils took advantage of the connected charities provisions in 2013/14. Five councils made full use of the provisions covering 127 charities, and a further five made use for some, but not all of their charities, and therefore produced a total of 20 sets of accounts for their 124 charities.

45. Two councils stated in the accounts that were making use of the connected charities provisions but in reality simply included a number of separate accounts for each charity in the same document.

46. The remaining 13 councils produced a separate set of accounts for each of their 91 charities, which ranged from two up to 13 each.

47. Auditors should encourage their authorities to reduce the number of charities accounts that require to be audited in 2014/15 to a minimum. Where this still leaves authorities with more than one charity each, the TSU recommends that they should make full use of the connected charities provisions so that one set of charity accounts is required for each council.

Accounting developments

The documents referred to in the following articles are available to inhouse auditors from Audit Scotland's *Technical reference library* (licensing restrictions prevent them being available to the firms).

2014/15 code guidance notes

48. CIPFA has issued the *Code of practice on local authority accounting in the UK 2014/15 - guidance notes for practitioners* (the code guidance notes) to assist in understanding the accounting requirements of the *2014/15 Code of practice on local authority accounting in the UK* (the Code).

49. Unlike the Code itself, the code guidance notes are not mandatory, but they provide background to the Code's requirements and include detailed illustrations. Key changes from the previous edition are in respect of the following subjects which are briefly summarised in the paragraphs that follow

- Group accounts (see paragraph 50).
- Carbon reduction commitment (CRC) scheme (see paragraph 52).
- Frequency of revaluing property, plant and equipment (see paragraph 58).
- Combinations and transfers of functions (see paragraph 60).

Group accounts

50. Module 9 includes extensive revisions to reflect the introduction of the new group accounting standards, including *IFRS 10 Consolidated financial statements*. Under the Code and IFRS 10, an authority controls another entity if it has

- power over the entity
- exposure, or rights, to variable returns from its involvement with the entity
- the ability to use its power over the entity to affect the amount of the authority's returns.

51. The code guidance notes provide helpful guidance that expand on the Code's requirements. This includes clarifying the following

- The nature of an authority's involvement and the returns are not restricted to financial matter.
- Control might be established where an authority owns a majority of shares in a company but this should be considered against the purpose and design of an entity.
- All relationships need to be considered where there may be variable returns for an authority and it has power that might be exercised to vary the returns.
- The Code does not make any specific comments on the consolidation of charitable trusts and funds. Local authorities are therefore required to follow the requirements of IFRS 10 in the Code and, where material, consolidate any charitable trust or fund where an

authority meets the three criteria for control. Establishing whether or not an authority controls a charitable trust or fund will require detailed analysis and the use of judgement.

Carbon reduction commitment energy efficiency scheme

52. Module 2 (section D) has been updated for the consequences of the second phase of the carbon reduction commitment (CRC) scheme. The introductory phase ran from April 2010 to March 2014, and the second phase commenced in April 2014 and runs until March 2019. Each phase is divided into compliance years which run from 1 April to 31 March.

53. In the second phase, participants can order and purchase allowances
    - at the start of the compliance year (e.g. April 2014 for the 2014/15 year); or
    - after the end of the compliance year in June/July (e.g. June/July 2015 for the 2014/15 year).

54. Allowances purchased are valid for the current compliance year and all remaining compliance years up to the end of the phase.

55. Where authorities purchased allowances prospectively in April 2014 for the purpose of settling 2014/15 or future years' CRC responsibilities, the allowances should be classified as current intangible assets. CRC responsibilities for 2014/15 should be charged as an expense and a liability recognised at 31 March for the surrender of the allowances to the CRC Registry by 31 October 2015. When the allowances are surrendered, the current intangible asset will be reduced by the allowances surrendered and the liability decreased.

56. Where authorities purchase allowances retrospectively in June/July2015, they will need to provide for the surrender of the allowances at 31 March 2015. Therefore, their 2014/15 CRC responsibilities should be accrued as an expense at 31 March 2015 and a liability recognised for the surrender of the allowances.

57. 2013/14 was the final year of the introductory phase of the CRC scheme. However, there is no option to carry forward any unused allowances for use in respect of emissions in the second phase of the scheme. Any remaining unused introductory phase allowances are therefore invalid and should be written off to revenue in 2014/15.

Regularity of revaluing property, plant and equipment

58. Module 4 has been augmented in a number of areas to provide additional clarification, guidance and examples in respect of property, plant and equipment, including the frequency of revaluations.

59. The Code specifies that for assets that are required to be carried at fair value, revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Neither the Code nor IAS 16 specifically stipulates that valuations are required every reporting period or on an annual basis. The Code allows valuations to be carried out on a rolling basis provided revaluation of a class of assets is completed within a short period.

CIPFA's view is that a rolling basis can cover more than one financial year, and the Code limits this short period to five years.

Combinations and transfers of functions

60. Module 2 (section E) has been updated to reflect the provisions of section 2.5 of the Code which have been clarified and augmented in respect of combinations of public sector bodies or transfers of functions between public sector bodies. In summary, paragraph E41 sets out the implications for various scenarios as follows

- Local authority ceases to exist
  - Although not a discontinued operation, a note to the comprehensive income and expenditure statement (CIES) should be disclosed explaining the circumstances.
  - The CIES will not look any different to how it would have had the authority not been subject to reorganisation.
- Local authority loses some of its services to another authority but continues to exist
  - In the final year of operation, the authority present separately those operations which are being transferred.
  - The prior year comparatives relating to the transferred service should be separately presented.
  - Where an authority has some of its area and services transferred to another local authority, it may wish to present a single line on the face of the CIES 'services transferring to ABC Council', and then disclose an analysis in a note.
  - In the movement in reserves statement, the transfer should be presented as an adjusting line to the opening figure, with a sub-total to show the restated position post-transfer.
- A new local authority is brought into existence
  - In its first year of operation, all of the services/operations should be classified as acquired functions (operations) and there should be no prior year comparatives.
  - A note is required to record that this is the first year of a new authority and that all operations are acquired.
  - The Code requires the opening balance sheet to be disclosed in a note to the accounts, clearly identifying it as the opening position on the creation of the new authority rather than the closing position for a preceding year.
- A local authority acquires some new services
  - In the first year of operation of the new services, they will be presented as acquired services or functions.
  - In the CIES, the authority may wish to present a single line 'services transferred from XYZ Council' and disclose an analysis in the notes.

– In the second year, the comparative for each service should be the amount presented under continuing operations plus that disclosed in the note as acquired in the current year's accounts.

– In the movement in reserves statement, the transfer should be presented as an adjusting line to the opening figure, with a sub-total to show the restated position post-transfer.

2015/16 SeRCOP

61. CIPFA has issued the *2015/16 Service reporting code of practice for local authorities* (SeRCOP) which sets out proper accounting practice for financial reporting below the level of the financial statements in 2015/16.

62. SeRCOP provides guidance on financial reporting to stakeholders (e.g. performance indicators) in order to achieve data consistency and comparability. SeRCOP does not provide guidance on the financial statements but is consistent with the Code.

63. The structure of SeRCOP is as follows

- Section 1 gives an overview of SeRCOP's framework and status.
- Section 2 defines total cost, and includes best practice guidance to provide a commentary on the mandatory requirements.
- Section 3 sets out the required service expenditure analysis, which requires by the Code to be used in the CIES.
- Section 4 provides a recommended standard subjective analysis.

64. Changes have been made to the definition of total cost arising from the adoption in the 2014/15 Code of the new group accounts standards. The adoption of *IFRS 11 Joint arrangements* has resulted in the section on partnerships being updated as IFRS 11 recognises two types of joint arrangement, i.e. joint ventures and joint operations.

- Joint operations (previously referred to in SeRCOP as jointly controlled operations and jointly controlled assets) are accounted for by recognition of the authority's share of assets, liabilities revenues and expenses arising from the joint operation. Attributable revenue and expenditure is recognised for total cost purposes within net cost of services of the authority.
- However, where the arrangement is classified as a joint venture, consolidation should be accounted for using the equity method as described by IAS 28. Joint ventures are therefore excluded from the total cost of local authority services and are not considered for the purposes of SeRCOP.

65. The principle of total cost remains applicable to group reporting. Operating results of subsidiaries should be allocated or apportioned as income and expenditure to the group total cost of services. Where this is not possible, a separate line describing the activity should be included.

Other developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

Benefits

Guidance on RTI matching initiative

66. The Department for Work and Pensions (DWP) has issued HB circular A15/2014 and HB circular A16/2014 to provide guidance on a data matching exercise involving HM Revenue and Customs (HMRC).

67. The exercise involves matching information from HMRC's *Real time information* (RTI), which is the new system for collecting pay as you earn information from employers and pension providers, with six social security benefits including housing benefit. It will result in referrals being issued to local authorities where the DWP has information that earnings or non-state pension have not been correctly declared for the purposes of housing benefit.

68. The DWP is not able to provide information to authorities regarding the hours worked. Where a referral identifies an increase in earnings already declared, authorities should assume the same hours, unless it is not reasonable to do so.

69. In order to support local authorities manage and process the RTI referrals, a number of support measures have been put in place including the following

- A secure process for sharing the RTI data which enables it to be uploaded to the local authority housing benefit systems.
- Circular S11/2014 sets out the funding arrangements to compensate local authorities for the additional burden associated with processing the RTI referrals.
- A grace period of 4 weeks has been agreed from the point the RTI data is received by local authorities before the error is treated a 'local authority error and/or administrative delay'.

70. Where a local authority has reason to believe the claimant is being overpaid, it may consider suspending payment in whole or in part in order to reduce the risk of an overpayment occurring.

Removal of the spare room subsidy

71. The DWP has issued HB Urgent bulletin U4/2014 Removal of the spare room subsidy-Upper Tribunal decisions to provide details of decisions made by the Upper Tribunal relating to the removal of the spare room subsidy.

72. The key principle in the decisions is that the Court of Appeal in the 'MA & Others' case (which ruled that the removal of the spare room subsidy was lawful because discretionary housing payments are available to cover housing benefit losses) should be followed rather than the

'Burnip' case (where the judgment held that the size criteria discriminated unlawfully against the appellants as they required an extra bedroom for their carer).

73. These decisions must be followed by local authorities and first-tier tribunals when making decisions.

Universal credit

74. The DWP has issued HB bulletin G10/2014 providing an update on universal credit which will be rolled out across Great Britain to all local authorities and Jobcentres from February 2015 for new single claimants previously eligible for jobseeker's allowance, including claimants with existing housing benefit awards.

New fraud and error reduction scheme

75. The DWP has issued details of a new fraud and error reduction scheme in HB circular A17/2014 Fraud and error reduction incentive scheme: guide for local authorities that will run from 1 December 2014 and throughout 2015/16. The scheme aims to encourage local authorities to find as many changes of circumstance as possible which result in a reduced housing benefit entitlement, with particular focus on the high value changes.

76. Financial rewards are offered to authorities who have opted in to the scheme who identify reductions to housing benefits entitlement above a threshold set by DWP. The level of reward is dependent on the degree to which a local authority exceeds its threshold.

77. HB circular S10/2014 Fraud and error reduction incentive scheme funding sets out the arrangements for distributing funding to local authorities. Each local authority is allocated a set amount of a start-up fund to provide an initial injection of funding to allow plans and resources to be put in place.

78. The DWP will set baseline and performance thresholds for each local authority. The amount of funding an authority receives will depend on their performance relative to their baseline and thresholds.

79. The total amount a local authority could receive from the scheme is equivalent to 10% of the administration subsidy for that year. The annex to the circular provides details of the potential funding each local authority could receive.

80. Unspent funding will be recovered from authorities. However, funding will not be recovered where local authorities have spent it on agreed activities but have not made sufficient improvement.

81. In addition, local authorities can also bid for funding from the *Performance improvement fund* where they can demonstrate solutions to reducing fraud and error in the housing benefit caseload.

2015/16 funding

82. The DWP has issued HB circular S6/2014 2015/16 HB administration subsidy arrangements for Scottish local authorities to provide details of the provisional housing benefit administration subsidy for 2015/16.

83. The annex to the circular shows each local authority's provisional allocation of the administration subsidy.

Single Fraud Investigation Service

84. The DWP has also issued HB circular S9/2014 Payment of new burdens relating to the Single Fraud Investigation Service for 2014/15 to announce funding to meet new burdens incurred by local authorities as a result of the introduction of the Single Fraud Investigation Service in 2014/15.

85. The annex to the circular shows each local authority's allocation. Funding is only payable to authorities where the project is implemented before 31 March 2015.

Integration joint boards

New regulations

86. The Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014 has been issued to provide for the membership, proceedings and operation of integration joint boards from 2015/16 established under the *Public Bodies (Joint Working)(Scotland) Act 2014.*

87. The membership of the board will include

- councillors and non-executive directors from the health board
- the chief officer of the integration joint board
- the chief social work officer
- medical and nursing representatives
- the proper officer of the integration joint board.

88. The board is required to appoint further members representing staff who will provide the services, and representatives from the voluntary sector and service users and carers. The chairperson is to be appointed from the members nominated by the health board and local authority.

89. The term of office for members will not exceed three years, unless membership is by virtue of holding a particular post, but members can serve more than one term.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Social care

90. The Public Bodies (Joint Working) (Scotland) Act 2014 (Integration and Joint Monitoring Committee) (Scotland) Order 2014 (SSI 281) came into force on 28 November 2014 and provides for the membership, proceedings and operation of integration joint monitoring committees which are required under the Act where a lead agency approach to health and social care integration is adopted.

91. The Public Bodies (Joint Working) (Local Authority Officers)(Scotland) Regulations 2014 (SSI 282) came into force on 28 November 2014 and prescribe the conditions which must be satisfied to allow provisions conferred on local authority officers for the purpose of section 23 of the Act to be exercised by others.

92. The Public Bodies (Joint Working) (Prescribed Consultees)(Scotland) Regulations 2014 (SSI 283) came into force on 28 November 2014 and prescribe the consultees on integration schemes, strategic plans and decisions affecting service provision. These include health and social care professionals, users of health and social care services, and third sector bodies.

93. The Public Bodies (Joint Working) (Prescribed Days) (Scotland) Regulations 2014 (SSI 284) came into force on 28 November 2014 and provide that, for the purposes of the Act, the prescribed day for

    - an integration scheme to be submitted to the Scottish Ministers is 1 April 2015
    - Scottish Ministers to exercise their power to delegate functions to integration authorities is 1 April 2016.

94. The Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014 (SSI 285) came into force on 28 November 2014. See paragraph 86.

95. The Public Bodies (Joint Working) (Health Professionals and Social Care Professionals)(Scotland) Regulations 2014 (SSI 307) came into force on 12 December 2014 and prescribe the descriptions of persons who, for the purposes of the Act, are within the definition of health or social care professionals.

96. The Public Bodies (Joint Working) (Membership of Strategic Planning Groups)(Scotland) Regulations 2014 (SSI 308) came into force on 12 December 2014 and prescribe the groups which must be included in the membership of an integration authority's strategic planning group.

97. [The Public Bodies (Joint Working) (Content of Performance Reports)(Scotland) Regulations 2014] (SSI 326) came into force on 12 December 2014 and prescribe the content to be included in the performance report prepared by integration authorities.

Social security

98. [The Universal Credit and Miscellaneous Amendments (No2) Regulations 2014] (SI 2888) came into force on 26 November 2014 and amended the method by which a person is determined to be blind for the purposes of housing benefit with the condition that they must be certified as severely sight impaired or blind by a consultant ophthalmologist.

Publications

The following publication published since TB 2014/3 is available to external auditors from Audit Scotland's *Technical reference library* (licensing restrictions prevent it being available to the firms).

Benefits

Welfare reform and its effect on local government

99. This publication from CIPFA *Welfare reform and its effect on local government* explains the financial implications for local authorities of welfare reform. Welfare reform has had a significant impact on the financial position of claimants and their families. The focus of the guide is on the broad financial consequences at the strategic level. It examines the direct consequences that authorities may be faced with, such as

- increased levels of homelessness
- increased rent arrears and the costs of rent collection
- sub-standard accommodation becoming more prevalent
- claimants leaving high-rent areas and relocating to lower-rent areas
- increased demand for smaller and cheaper accommodation and for awards of discretionary housing payments.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 34 in respect of 2014/15 local authority annual accounts?			
2 Have you carried out the action recommended at paragraph 37 in respect of 2014/15 local authority charities annual accounts?			

	Yes/No/N/A	Initials/date	W/P ref
3 Have you carried out the action recommended at paragraph 42 in respect of the positioning of the independent auditor's report in 2014/15?			
4 Have you carried out the action recommended at paragraph 47 in respect of the number of charity accounts that require to be audited in 2014/15?			

Central government chapter

Introduction

This chapter contains articles on central government technical developments and authoritative guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the central government sector. It should also be read by auditors with appointments in the health sector as most of the articles also apply to that sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Accounting developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

2014/15 disclosure checklist

100. The National Audit Office (NAO) has issued the 2014/15 FReM disclosure checklist which is designed to ensure that entities covered by the *Government financial reporting manual* (FReM) have prepared their 2014/15 financial statements in the appropriate form and have complied with all disclosure requirements.

101. The guide is cross-referenced to the 2014/15 FReM, individual financial reporting standards, and the *Companies Act 2006.* Auditors will need to generate a tailored checklist by selecting the criteria that are material to their audited body.

102. While the guide is designed primarily for the NAO's internal use, auditors in Scotland may also find it a helpful supplement to the TSU's note for guidance on auditing the 2014/15 central government annual accounts which will be issued shortly.

Other developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Finance guidance notes

Amendment to SPFM

103. The Scottish Government has issued Finance guidance note (FGN) 2014/10 to announce that the sections of the *Scottish public finance manual* on acquisition of property, management of assets, and disposal of property, plant and equipment have been brought together into a single section called Property - acquisition, disposal and management.

104. This is intended to bring together the requirements to be met when analysing and supporting acquisition proposals and clarify and strengthen the process of disposing of public sector land and buildings.

Section 22 reports

Under section 22(3) of the *Public Finance and Accountability (Scotland) Act 2000*, the Auditor General may prepare a report to Scottish Ministers on the accounts sent to her by auditors. The following report has been prepared since TB 2014/3 and can be obtained by using the hyperlink.

The 2013/14 audit of the Scottish Government consolidated accounts - Common agricultural policy futures programme

105. This report from the Auditor General on the 2013/14 audit of the Scottish Government consolidated accounts draws Parliament's attention to the costs and progress of the *Futures programme*, which is an IT enabled business transformation programme to implement *Common agricultural policy* reforms in Scotland.

106. The report highlights the ongoing risks to achieving the successful delivery of the programme and to overall value for money.

Health chapter

Introduction

This chapter contains articles on health technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the health sector. Auditors should also read the central government chapter and cross-sectoral chapter which cover developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes is provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

TSU developments

Good practice notes

The following good practice note has been issued by the TSU since TB 2014/3

Good practice note on improving the quality of NHS annual accounts

107. The TSU has issued a good practice note on *Improving the quality of NHS annual report and accounts*. The note is based on a review of a sample of 2013/14 NHS board accounts which found significant variations in the quality of their presentation. The note is designed to help all boards improve their accounts presentation to reach the standard of the best. It contains a number of illustrations of good and bad practice that are actual examples taken from signed 2013/14 accounts.

108. Auditors have a role in assisting boards to produce relevant, concise and clear accounts which provide users with an understandable and balanced assessment of the financial performance and position of the board. Auditors should ensure that their boards are aware of the good practice note and have put arrangements in place to deliver a quality set of annual accounts for 2014/15.

Other developments

The document referred to in the following article can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Pay and workforce planning

2014/15 remuneration of non-executive members

109. The Scottish Government Health and Social Care Directorates (SGHSCD) has issued CEL(2014)18 which advises of revised annual rates of remuneration payable to Chairs and other non-executive members of health boards. The revised rates set out in the letter reflect a 1% increase.

Legislation

The following legislation can be obtained by using the hyperlinks and are available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

National health service

110. The Public Bodies (Joint Working) (Scotland) Act 2014 (Integration and Joint Monitoring Committee) (Scotland) Order 2014 (SSI 281) came into force on 28 November 2014 and provides for the membership, proceedings and operation of integration joint monitoring committees which are required under the Public Bodies (Joint Working)(Scotland) Act 2014 where a lead agency approach to health and social care integration is adopted.

111. The Public Bodies (Joint Working) (Local Authority Officers)(Scotland) Regulations 2014 (SSI 282) came into force on 28 November 2014 and prescribe the conditions which must be satisfied to allow provisions conferred on local authority officers for the purpose of section 23 of the Act to be exercised by others.

112. The Public Bodies (Joint Working) (Prescribed Consultees)(Scotland) Regulations 2014 (SSI 283) came into force on 28 November 2014 and prescribe the consultees on integration schemes, strategic plans and decisions affecting service provision which includes health and social care professionals, users of health and social care services, and third sector bodies.

113. The Public Bodies (Joint Working) (Prescribed Days) (Scotland) Regulations 2014 (SSI 284) came into force on 28 November 2014 and provide that, for the purposes of the Act, the prescribed day for

- an integration scheme to be submitted to the Scottish Ministers is 1 April 2015
- Scottish Ministers to exercise their power to delegate functions to integration authorities is 1 April 2016.

114. [The Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014] (SSI 285) came into force on 28 November 2014 to provide for the membership, proceedings and operation of integration joint boards from 2015/16 established.

115. [The Public Bodies (Joint Working) (Membership of Strategic Planning Groups)(Scotland) Regulations 2014] (SSI 308) came into force on 12 December 2014 and prescribe the groups which must be included in the membership of an integration authority's strategic planning group.

116. [The Public Bodies (Joint Working) (Content of Performance Reports)(Scotland) Regulations 2014] (SSI 326) came into force on 12 December 2014 and prescribe the content to be included in the performance report prepared by integration authorities.

Section 22 reports

Under section 22(3) of the *Public Finance and Accountability (Scotland) Act 2000*, the Auditor General may prepare a report to Scottish Ministers on the accounts sent to him by auditors. The following reports have been prepared since TB 2014/3 and can be obtained by using the hyperlinks.

The 2013/14 audit of NHS 24 - management of an IT contract

117. This report from the Auditor General on the [2013/14 audit of NHS 24 - management of an IT contract] draws Parliament’s attention to problems with NHS 24 implementing a major new IT system.

118. The financial implications of the delays mean there is likely to be a high risk of the board not achieving its financial targets in future years.

The 2013/14 audit of NHS Orkney - financial management

119. This report from the Auditor General on the [2013/14 audit of NHS Orkney - financial management] draws Parliament's attention to weaknesses in financial management in NHS Orkney during 2013/14.

120. Weaknesses in financial management were a factor in the board requiring brokerage of £1 million from the Scottish Government to break even. The need for brokerage was mainly due to hiring locum doctors to cover vacant medical posts.

121. In addition, the board's financial statements were submitted to the Scottish Government on 4 July 2014, after the 30 June deadline. This was due to additional work required to correct an error identified by the auditor.

122. The auditor has also raised concerns about the capacity of the finance team, the difficulty in recruiting staff, and the board's continued reliance on non-recurring savings.

The 2013/14 audit of NHS Highland - Financial management

123. This report from the Auditor General on the 2013/14 audit of NHS Highland - financial management draws Parliament's attention to weaknesses in financial management in NHS Highland during 2013/14.

124. Weaknesses in financial management were a major factor in the board requiring brokerage of £2.5 million from the Scottish Government to break even. The need for brokerage was due to an overspend on the operating costs for Raigmore Hospital as well as financial pressures in the acute sector from costs associated with hiring agency staff, particularly locum doctors, and meeting national waiting times targets.

Publications

The following publication published since TB 2014/3 can be obtained by using the hyperlinks.

Audit Scotland

NHS in Scotland 2013/14

125. This publication from Audit Scotland NHS in Scotland 2013/14 examines the financial performance of the NHS in Scotland in 2013/14, and looks ahead to future financial challenges. Key messages include the following

- All boards met their financial targets, but several boards required additional funding from the Scottish Government or relied on non-recurring savings to break even.
- The NHS did not meet some key waiting time targets in 2013/14. The current level of focus on meeting waiting time targets may not be sustainable when combined with additional pressures of increasing demand and tightening budgets.
- The NHS has made good progress in a number of areas, including improving outcomes for people with cancer or heart disease and reducing healthcare-associated infections.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 108 in respect of improvements to the annual accounts?			

Further education chapter

Introduction

This chapter contains articles on further education technical developments and guidance relevant to external auditors' responsibilities under their audit appointment. It should be read by external auditors with appointments in the further education sector. Auditors should also read the cross-sectoral chapter which covers developments and guidance that are relevant to all sectors. More in-depth and extensive guidance on particular subjects or themes are provided in separate guidance notes published by the TSU (i.e. notes for guidance and urgent issue notes).

The articles in this chapter are intended to highlight the main points that the TSU considers auditors require to be aware of in respect of each development. In many cases, it may still be necessary for auditors to read the source material. The documents referred to in the articles can be obtained by using the hyperlinks. They are also available to external auditors from Audit Scotland's *Technical reference library*.

Accounting developments

The documents referred to in the following articles can be obtained by using the hyperlinks, and are available to external auditors from Audit Scotland's *Technical reference library*.

New SORP from 2015/16

126. The FE/HE SORP Board has issued a new Accounting for higher and further education - statement of recommended practice (SORP) based on FRS 102. The first reporting year under the new SORP will be 2015/16 and restated comparative figures for 2014/15 and a closing balance sheet for 2013/14 will be required.

127. The new SORP will result in a number of changes to the way financial performance, assets and liabilities are presented in the financial statements. Some significant changes are briefly summarised in the following paragraphs.

128. There are changes to the names of the financial statements as follows

- The income and expenditure account (I&E account) will become the statement of comprehensive income statement (SCI).
- The statement of recognised gains and losses (STRGL) will become the changes to reserves and funds statement.
- The balance sheet will become the statement of financial position.

129. Under the 2005 SORP, new endowments are credited to the balance sheet via the STRGL. New revenue recognition rules mean that almost all endowments will be credited to the SCI

and then transferred to restricted reserves (which will be called either endowment funds or restricted reserves depending on their nature).

130. The revenue recognition rules will result in most capital grants being credited to the SCI, rather than to deferred capital grants on the balance sheet. Deferred capital grants recorded on balance sheets, and their subsequent release to the I&E account, will no longer occur.

131. Untaken annual leave, or other contractual leave entitlements, will need to be recorded as a liability at the end of the reporting period.

132. The new SORP in accordance with FRS 102 takes an approach to service concession arrangements based on control rather than the balance of risk and reward. This may result in some student accommodation being recognised on the balance sheet.

133. The SORP requires a strategic report, which may also be called a treasurer's report, member's report, directors' report, report of the governing body or trustee's annual report.

134. Auditors should confirm that their colleges are aware of the new SORP and are taking steps to comply.

Guidance on implementation of new SORP

135. The Scottish Funding Council (SFC) has issued Reclassification of incorporated colleges - communication number 15 to provide an update on the new SORP.

136. Colleges will need to be aware of the budgetary implications of the changes to the SORP. Budget cover will be required for the in-year cost of assets under construction and an adjustment will need to be made for capital grants from non-government sources before any surplus is transferred to arms' length foundations. The SFC will approach HM Treasury for transitional relief for the impact of these changes.

Other developments

The document referred to in the following article can be obtained by using the hyperlink, and is available to external auditors from Audit Scotland's *Technical reference library*.

Finance

Request for 2013/14 financial statements

137. The SFC has issued Financial statements and returns 2013/14 requesting audited 2013/14 financial statements to be submitted to them.

138. The deadlines for submission are

- 10 October 2014 for colleges with a 31 March 2014 year end
- 31 December 2014 for colleges with a 31 July 2014 year end.

139. The document also requires any colleges now expecting to record an unplanned, or higher than planned, deficit for 2013/14, to inform the SFC.

Legislation

The following legislation can be obtained by using the hyperlink and is available to external auditors from Audit Scotland's *Technical reference library*.

Statutory instruments

Education

140. The Lanarkshire Colleges Order 2014 (SSI 250) came into force on 1 October 2014 and designates the board of management of New College Lanarkshire as a regional college and makes it a regional strategic body. The order also assigns South Lanarkshire College to New College Lanarkshire.

Auditor action checklist

	Yes/No/N/A	Initials/date	W/P ref
1 Have you carried out the action recommended at paragraph 134 in respect of the new SORP?			

Contact points

Specific enquiries or requests for further information relating to articles contained in each chapter of this TB should be made to

Contact	Chapter
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Anne Cairns, Manager – Benefits (Technical) 0131 625 1926 acairns@audit-scotland.gov.uk	Local authority (Benefits developments only)
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